HOUSE OF COMMONS

Fifth Session—Twenty-second Parliament
1957

SESSIONAL COMMITTEE ON RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

Chairman: HARRY P. CAVERS, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

including

REPORTS TO THE HOUSE

MONDAY MARCH 18, 1957

TUESDAY, MARCH 19, 1957

Canadian National Railways 1956 Annual Report and 1957 Budget;
Canadian National Railways Securities Trust 1956 Annual Report;
Canadian National (West Indies) Steamships, Limited, 1956 Annual Report and 1957 Budget;
Auditors' 1956 Reports to Parliament on C.N.R. and C.N. (West Indies) Steamships, Limited;
Estimates Items for 1957-58—Votes 454, 455, 465, 466.

WITNESSES:

Mr. Donald Gordon, Mr. S. F. Dingle, Mr. R. D. Armstrong, Mr. J. W. Grant, Mr. J. A Sauvé, Mr. J. A. Wilson, and Mr. J. W. Beech.

APPENDIX

Correspondence from Canadian Brotherhood of Railway Employees and Other Transport Workers

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1957.

87674—1

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

owned, operated and controlled by the Government

Chairman: H. P. Cavers, Esq.,

and Messrs:

[2]Balcer
[2]Bell
Byrne
Carter
Cavers
Follwell
Fulton
Gauthier (*Lac-Saint-Jean*)
[3]Gillis
Hahn
Hamilton (*Notre-Dame-de-Grâce*)
Hamilton (*York West*)
Hanna
Harrison
[1]Howe (*Wellington-Huron*)
James
Johnston (*Bow River*)
Knight
[3-4]Knowles
Lavigne
Legare
McCulloch (*Pictou*) (*Vice-Chairman*)
Michell (*Sudbury*)
Murphy (*Westmorland*)
[1]Nowlan
Power (*Quebec South*)
Richardson
St. Laurent (*Temiscouata*)
[4]Stewart (*Winnipeg North*)
Weaver

A. Small,
Clerk of the Committee.

[1] Mr. W. M. Howe replaced Mr. Nowlan on March 13, 1957.

[2] Mr. Balcer replaced Mr. Bell on March 14, 1957.

[3] Mr. Knowles replaced Mr. Gillis on March 18, 1957.

[4] Mr. Stewart replaced Mr. Knowles on March 20, 1957.

ORDERS OF REFERENCE

House of Commons,
TUESDAY, March 12, 1957.

Resolved,—That a Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, be appointed to consider the accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines, saving always the powers of the Committee of Supply in relation to the voting of public moneys; and that the said Committee be empowered to send for persons, papers and records and to report from time to time and that, notwithstanding Standing Order 67 in relation to the limitation of the number of members, the said Committee to consist of Messrs. Bell, Byrne, Carter, Cavers, Follwell, Fulton, Gauthier (*Lac-Saint-Jean*), Gillis, Hahn, Hamilton (*Notre-Dame-de-Grace*), Hamilton (*York West*); Hanna, Harrison, James, Johnston (*Bow River*), Knight, Lavigne, Legare, McCulloch (*Pictou*), Mitchell (*Sudbury*), Murphy (*Westmorland*), Nowlan, Power (*Quebec South*), Richardson, St. Laurent (*Temiscouata*), and Weaver.

WEDNESDAY, March 13, 1957.

Ordered,—That the name of Mr. Howe (*Wellington Huron*) be substituted for that of Mr. Nowlan on the said Committee.

WEDNESDAY, March 13, 1957.

Ordered,—That the Annual Reports for 1956 of the Canadian National Railways, Canadian National (West Indies) Steamships Limited and the Canadian National Railways Securities Trust, the Auditors' Report to Parliament in respect of Canadian National Railways and Canadian National (West Indies) Steamships Limited, and the Budgets for 1957 of Canadian National Railways and Canadian National (West Indies) Steamships Limited, tabled this day, be referred to the said Committee, together with the following items of Estimates for 1957-58:

Vote 454—Prince Edward Island Car Ferry and Terminals deficit, 1957;

Vote 455—Newfoundland Ferry and Terminals deficit, 1957;

Vote 465—Maritime Freight Rates Act;

Vote 466—Canadian National (West Indies) Steamships Limited;

and that the resolution passed by the House on January 23, 1957 referring certain Estimates to the Committee of Supply be rescinded so far as the said resolution related to Votes 454, 455, 465 and 466.

WEDNESDAY, March 13, 1957.

Ordered,—That the Annual Report of the Trans-Canada Air Lines for 1956, the Auditors' Annual Report to Parliament of Trans-Canada Air Lines for the year ending December 31, 1956, tabled this day, and the Capital Budget of Trans-Canada Air Lines for the year ending December 31, 1956, tabled on Friday, February 15, 1957, be referred to the said Committee.

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THURSDAY, March 14, 1957.

Ordered,—That the name of Mr. Balcer be substituted for that of Mr. Bell on the said committee.

MONDAY, March 18, 1957.

Ordered,—That the said Committee be empowered to print from day to day 1,000 copies in English and 250 copies in French of its Minutes of Proceedings and Evidence and that Standing Order 66 be suspended in relation thereto.

Ordered,—That the said Committee be authorized to sit while the House is sitting.

Ordered,—That the quorum of the said Committee be set at ten members.

MONDAY, March 18, 1957.

Ordered,—That the name of Mr. Knowles be substituted for that of Mr. Gillis on the said Committee.

WEDNESDAY, March 20, 1957.

Ordered,—That the name of Mr. Stewart (*Winnipeg North*) be substituted for that of Mr. Knowles on the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

REPORTS TO THE HOUSE

MONDAY, March 18, 1957.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, begs leave to present the following as its

FIRST REPORT

Your Committee recommends:

1. That its quorum be set at ten members.
2. That it be authorized to sit while the House is sitting.
3. That it be empowered to print from day to day 1,000 copies in English and 250 copies in French of its Minutes of Proceedings and Evidence and that Standing Order 66 be suspended in relation thereto.

WEDNESDAY, March 27, 1957.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as its

SECOND REPORT

Your Committee has considered the following items of the Estimates for the fiscal year ending March 31, 1958, referred to it on March 13, 1957:

Vote 454—Prince Edward Island Car Ferry and Terminals deficit, 1957;
Vote 455—Newfoundland Ferry and Terminals deficit, 1957;
Vote 465—Maritime Freight Rates Act; and
Vote 466—Canadian National (West Indies) Steamships Limited.

Your Committee recommends approval of Votes 454, 455, and 465. In respect of Vote 466, your Committee has ascertained from its study of the 1957 Capital Budget of Canadian National (West Indies) Steamships, Limited, that this item will not be required and, accordingly, recommends that it be withdrawn.

WEDNESDAY, March 27, 1957.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as its

THIRD REPORT

Pursuant to the Orders of Reference of the House of Commons of March 12th and 13th, this Committee had before it for consideration the following:

1. The Annual Reports of Canadian National Railways, the Canadian National (West Indies) Steamships, Limited, for 1956, and the Auditors' Reports to Parliament in respect thereto.
2. The Annual Report of the Canadian National Railways Securities Trust for 1956.
3. The Annual Report of the Trans-Canada Air Lines for the calendar year 1956 and the Auditors' Report to Parliament in relation thereto.
4. The Capital Budgets of the Canadian National Railways, the Canadian National (West Indies) Steamships, Limited, both for the year 1957, and the Operating Budget and the Capital Budget for Trans-Canada Air Lines for the calendar year 1957.

Your Committee held eight meetings during which meetings the officials of C.N.R. and T.C.A. and the auditors were heard and the reports, budgets and certain matters relating thereto were considered and evidence adduced thereon.

Your Committee was gratified to note surpluses for each of the transportation systems which submitted reports to it. The Canadian National Railways report revealed a surplus of $26,076,951 which indicated a greatly improved financial position over last year. The average net income for the past five-year period works out to approximately $1.7 million a year. Freight revenue rose to an all-time high of $612.8 million, up $72.6 million from the results of 1955.

Your Committee noted the continued progress of the dieselization program. This approach, with emphasis on the application of diesel-electric power to specific runs and services, should offer a greater return on investment. The said Annual Report was adopted.

The Annual Report of Canadian National (West Indies) Steamships, Limited, for 1956 indicated a net operating surplus of $23,281. This compares most favourably with a deficit of $95,964 in 1955 and represents a net improvement of $119,245. The operating revenues showed an increase from $5,946,605 in 1955 to $6,125,470 while operating expenses increased from $5,995,684 in 1955 to $6,052,570 in 1956. South-bound tonnage was up 2% in 1956 largely because of increased flour shipments to Jamaica. North-bound traffic declined by 14% in 1956 due entirely to a decrease of 12.5% in sugar traffic. The said Annual Report was adopted.

The Annual Report of Trans-Canada Air Lines for 1956 showed a net surplus of $1,556,212. This was the sixth successive year in which a surplus had been recorded. The improvement over the previous year's results was attributable to increased traffic throughout the system, a slight increase in the proportion of capacity sold and to improved productivity of personnel and aircraft. Air transportation in Canada felt the effect of a strong national economy. The Committee noted that the delivery of additional Viscounts permitted an extension of service for these extremely popular aircraft. An aggressive sales policy has been maintained and, for the first time, this year over two million passengers were carried in a single year. The said Annual Report was adopted.

The Auditors' Reports to Parliament with respect to Canadian National Railways, the Canadian National (West Indies) Steamships, Limited, and the Trans-Canada Air Lines, as well as the Report of the Canadian National Securities Trust, for the calendar year 1956 were severally considered and adopted.

The Financial Budgets of the Canadian National Railways System, the Canadian National (West Indies) Steamships, Limited, and Trans-Canada Air Lines for the calendar year 1957 were examined and adopted.

The Committee also considered Votes 454, 455, 465 and 466 of the Estimates for the fiscal year ending March 31, 1958. In its Second Report, your Committee recommended approval of Votes 454, 455 and 465 and that Vote 466 be withdrawn.

Your Committee was assisted in its deliberations by the evidence which was presented by Mr. Donald Gordon, C.M.G., LL.D.; Mr. S. F. Dingle; Mr. R. D. Armstrong; Mr. J. A. Sauve; Mr G. R. McGregor; Mr. W. S. Harvey; Mr. J. A. Wilson, and Mr. J. W. Beech which was readily delivered by these gentlemen in a most efficient and straight-forward way.

A copy of the Minutes of the Proceedings and Evidence adduced in respect of the matters referred to is appended hereto.

Respectfully submitted,

HARRY P. CAVERS,
Chairman.

MINUTES OF PROCEEDINGS

MONDAY, March 18, 1957.

MORNING SITTING

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met at 10.45 a.m.

Members present: Messrs. Byrne, Carter, Cavers, Follwell, Fulton, Gauthier (*Lac-St-Jean*), Hahn, Hamilton (*Notre-Dame-de-Grâce*), Hamilton (*York West*), Howe (*Wellington Huron*), Johnston (*Bow River*), Knight, Lavigne, McCulloch (*Pictou*), and Weaver.—(15).

In attendance: The Honourable George C. Marler, Minister of Transport; Mr. Donald Gordon, President, Canadian National Railways, assisted by Mr. S. F. Dingle, Vice-President of Operations, and Mr. R. D. Armstrong, Comptroller.

On motion of Mr. Carter, seconded by Mr. Follwell, Mr. Cavers was elected Chairman.

Upon taking the Chair, the Chairman expressed his thanks for the honour again conferred upon him.

On motion of Mr. Follwell, seconded by Mr. Byrne, Mr. McCulloch (*Pictou*) was elected Vice-Chairman.

The Chairman informed the Committee of an invitation from Trans-Canada Air Lines to a flight from Uplands to view from the air the St. Lawrence Seaway project between Cornwall and Montreal after the morning meeting on Thursday, March 21, 1957.

On motion of Mr. McCulloch (*Pictou*), seconded by Mr. Hamilton (*York West*),

Resolved,—That a recommendation be made to the House to set the quorum of the Committee at ten members.

On motion of Mr. Hahn, seconded by Mr. Johnston (*Bow River*),

Resolved,—That a recommendation be made to the House to authorize the Committee to sit while the House is sitting.

On motion of Mr. Byrne, seconded by Mr. Carter,

Resolved,—That a recommendation be made to the House to empower the Committee to print from day to day 1,000 copies in English and 250 copies in French of its Minutes of Proceedings and Evidence and that Standing Order 66 be suspended in relation thereto.

The Committee proceeded to consideration of the 1956 Annual Report of the Canadian National Railways.

Mr. Gordon was called, read the said report, and was questioned on paragraphs 1 to 3 inclusive. He was assisted by Messrs. Dingle and Armstrong.

At 1.15 p.m., the Committee recessed until 3.15 p.m.

MONDAY, March 18, 1957.

AFTERNOON SITTING

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government resumed at 3.15 p.m. The Chairman, Mr. Harry P. Cavers, presided.

Members present: Messrs. Byrne, Carter, Cavers, Follwell, Fulton, Hahn, Hamilton (*Notre-Dame-de-Grâce*), Hamilton (*York West*), Howe (*Wellington Huron*), James, Johnston (*Bow River*), Knight, Knowles, Lavigne, Légaré, McCulloch (*Pictou*), Murphy (*Westmorland*), Power (*Quebec South*), and Weaver.—(19).

In attendance: The Honourable George C. Marler, Minister of Transport; Mr. Donald Gordon, President, Canadian National Railways, assisted by Mr. S. F. Dingle, Vice-President of Operations, and Mr. R. D. Armstrong, Comptroller.

The Committee resumed its questioning of Mr. Gordon on paragraphs 4 to 23 inclusive of the 1956 Annual Report of the Canadian National Railways.

At 6.15 p.m., the Committee recessed until 8.30 p.m.

MONDAY, March 18, 1957.

NIGHT SITTING

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government resumed at 8.30 p.m. The Chairman, Mr. Harry P. Cavers, presided.

Members present: Messrs. Balcer, Byrne, Carter, Cavers, Follwell, Fulton, Gauthier (*Lac-St-Jean*), Hahn, Hamilton (*Notre-Dame-de-Grâce*), Hamilton (*York West*), Howe (*Wellington Huron*), James, Johnston (*Bow River*), Knight, Knowles, Lavigne, Légaré, McCulloch (*Pictou*), Mitchell (*Sudbury*), Murphy (*Westmorland*), Power (*Quebec South*), and Weaver.—(22).

In attendance: The Honourable George C. Marler, Minister of Transport; Mr. Donald Gordon, President, Canadian National Railways, assisted by Mr. S. F. Dingle, Vice-President of Operations, and Mr. R. D. Armstrong, Comptroller.

The Committee resumed its questioning of Mr. Gordon on paragraph 24 of the 1956 Annual Report of the Canadian National Railways.

At 10.00 p.m., the Committee adjourned to meet again at 10.30 a.m., Tuesday, March 19, 1957.

TUESDAY, March 19, 1957.

MORNING SITTING

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met at 10.30 a.m. The Chairman, Mr. Harry P. Cavers, presided.

Members present: Messrs. Balcer, Byrne, Carter, Cavers, Follwell, Fulton, Gauthier (*Lac-St-Jean*), Hahn, Hamilton (*York West*), Howe (*Wellington-Huron*), James, Knight, Knowles, Lavigne, Légaré, McCulloch (*Pictou*), Mitchell (*Sudbury*), Murphy (*Westmorland*), Richardson, St-Laurent (*Témiscouata*), and Weaver.—(21).

In attendance: The Honourable George C. Marler, Minister of Transport; Mr. Donald Gordon, President, Canadian National Railways, assisted by Mr. S. F. Dingle, Vice-President of Operations, and Mr. R. D. Armstrong, Comptroller.

The Committee resumed its questioning of Mr. Gordon on paragraphs 24 to 67 inclusive of the 1956 Annual Report of the Canadian National Railways.

At 1.10 p.m., the Committee recessed until 3.15 p.m.

TUESDAY, March 19, 1957.

AFTERNOON SITTING

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government resumed at 3.15 p.m. The Chairman, Mr. Harry P. Cavers, presided.

Members present: Messrs. Balcer, Byrne, Carter, Cavers, Follwell, Fulton, Hahn, Hamilton (*York West*), Harrison, Howe (*Wellington-Huron*), James, Johnston (*Bow River*), Knight, Lavigne, Légaré, McCulloch (*Pictou*), Mitchell (*Sudbury*), Murphy (*Westmorland*), Richardson, and Weaver.—(20).

In attendance: The Honourable George C. Marler, Minister of Transport; Mr. Donald Gordon, President, Canadian National Railways, assisted by Mr. S. F. Dingle, Vice-President of Operations, Mr. R. D. Armstrong, Comptroller, and Mr. J. W. Grant, General Supervisor of Budgets.

The Committee resumed its questioning of Mr. Gordon on paragraphs 68 to 84 inclusive, including the appended Financial and Statistical Statements, of the 1956 Annual Report of the Canadian National Railways.

On motion of Mr. Weaver, seconded by Mr. Fulton, the said Report was adopted.

The Committee proceeded to consideration of the 1957 Capital Budget of the Canadian National Railways.

At 5.05 p.m., the Committee's proceedings were interrupted by the Division Bells in the House. On the second Division in the House at 5.15 p.m., the Chairman adjourned the meeting until 8.30 p.m.

TUESDAY, March 19, 1957.

NIGHT SITTING

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met at 8.30 p.m. The Chairman, Mr. Harry P. Cavers, presided.

Members present: Messrs. Balcer, Byrne, Carter, Cavers, Follwell, Fulton, Hahn, Hamilton (*York West*), Howe (*Wellington-Huron*), Johnston (*Bow River*), Knight, Knowles, Légaré, McCulloch (*Pictou*), Mitchell (*Sudbury*), Murphy (*Westmorland*), Richardson, and Weaver.—(18).

In attendance: The Honourable George C. Marler, Minister of Transport; Mr. Donald Gordon, President, Canadian National Railways, assisted by Mr. S. F. Dingle, Vice-President of Operations, Mr. R. D. Armstrong, Comptroller, Mr. J. W. Grant, General Supervisor of Budgets, and Mr. J. A. Sauvé, General Manager, Canadian National (West Indies) Steamships, Limited; and Mr. J. A. Wilson, assisted by Mr. J. W. Beech, both of the firm of George A. Touche & Co., Chartered Accountants, Montreal.

The Committee resumed its consideration of the 1957 Capital Budget of the Canadian National Railways and completed its questioning of Mr. Gordon thereon.

On motion of Mr. Richardson, seconded by Mr. Weaver, the said Budget was adopted.

On motion of Mr. Weaver, seconded by Mr. Richardson, the 1956 Annual Report of the Canadian National Railways Securities Trust was taken as read and adopted.

On motion of Mr. Fulton, seconded by Mr. Weaver, the 1956 Auditors' Report to Parliament of the Accounts of the Canadian National Railway System was taken as read.

After questioning of Mr. Wilson thereon, on motion of Mr. James and seconded by Mr. Weaver, the said Report was adopted.

The Committee proceeded to consideration of the 1956 Annual Report of the Canadian National (West Indies) Steamships, Limited. The said Report was read by Mr. Gordon and the witnesses were questioned thereon.

On motion of Mr. Hahn, seconded by Mr. Carter, the said Report was adopted.

The Committee proceeded to consideration of the 1957 Capital Budget of the Canadian National (West Indies) Steamships, Limited.

The Minister of Transport, Mr. Marler, gave notice that, after preparation of the said Budget, the estimate to cover a deficit had changed to a surplus and, therefore, Vote 466 would not be required in the 1957/58 Estimates.

After questioning of the witnesses thereon, on motion of Mr. Johnston (*Bow River*) and seconded by Mr. McCulloch (*Pictou*), the said Budget was adopted.

The Committee proceeded to consideration of the 1956 Auditors' Report to Parliament of the Accounts of Canadian National (West Indies) Steamships, Limited. The said Report was taken as read and the witnesses were questioned thereon.

On motion of Mr. Fulton, seconded by Mr. Hamilton (*York West*), the said Report was adopted.

The Committee proceeded to consideration of Votes 454, 455, 465, and 466 of the 1957/58 Estimates of the Department of Transport. Votes 454, 455, and 465 were adopted. On Vote 466, the Committee, having ascertained that this item would not be required, agreed to recommend to the House that it be withdrawn.

The Chairman expressed the Committee's thanks to the witnesses for their presentations. The witnesses retired.

At 10.15 p.m., the Committee adjourned to meet again at 10.00 a.m. Thursday, March 21, 1957.

(NOTE: *The Minutes of Proceedings and Evidence for Thursday, March 21, 1957, relating to the Reports and Budget for Trans-Canada Air Lines appear in issue No. 2*).

MONDAY, March 25, 1957.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met *in camera* at 11.00 a.m. The Chairman, Mr. Harry P. Cavers, presided.

Members present: Messrs. Byrne, Carter, Cavers, Gauthier (*Lac St-Jean*), Hahn, Harrison, Knight, Légaré, McCulloch (*Pictou*), Mitchell (*Sudbury*), Murphy (*Westmorland*), Richardson, Stewart (*Winnipeg North*), and Weaver. —(14).

The Chairman presented a draft of the Committee's Second Report to the House. The said report was considered and, on motion of Mr. Richardson seconded by Mr. Carter, approved for presentation to the House.

The Chairman also presented a draft of the Committee's Third Report to the House. The said report was considered and revised.

During its consideration, the Committee discussed certain representations being made to the Chairman and other Members of Parliament by the Canadian Brotherhood of Railway Employees and Other Transport Workers regarding the C.N. Health and Welfare Plan and evidence given thereon to the Committee. The Chairman stated that the question related to the 1956 Annual Report of the Canadian National Railways which had already been considered and adopted by the Committee.

It was subsequently agreed that final adoption of the Committee's Third Report be deferred until tomorrow when the Chairman would present to the Committee a letter from the National President of the Brotherhood.

At 11.45 a.m., the Committee adjourned to meet again at 3.00 p.m., Tuesday, March 26, 1957.

TUESDAY, March 26, 1957.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met *in camera* at 3.30 p.m. The Chairman, Mr. Harry P. Cavers, presided.

Members present: Messrs. Carter, Cavers, Follwell, Fulton, Hahn, Johnston (*Bow River*), Knight, Légaré, Mitchell (*Sudbury*), Murphy (*Westmorland*), and Stewart (*Winnipeg North*).—(11).

The Committee resumed consideration of its Third Report to the House as revised at yesterday's meeting.

The Chairman read a letter dated March 25, 1957, from the National President of the Canadian Brotherhood of Railway Employees and Other Transport Workers. The said letter, on motion of Mr. Fulton and seconded by Mr. Murphy (*Westmorland*), was ordered to be printed as an appendix to the proceedings to which it relates (*See Appendix* to *Minutes of Proceedings and Evidence*, No. 1).

On motion of Mr. Johnston (*Bow River*), seconded by Mr. Légaré, the Committee's Third Report to the House was adopted.

Mr. Johnston (*Bow River*) raised the question of deferring presentation of the Committee's Reports to the House until its printed proceedings were available. The Chairman stated (1) that the original transcript of evidence for the first issue was still in the hands of the witnesses (2) that to do as suggested might mean the Session would be over before the Committee had reported and (3) that a copy of the transcript of evidence would be appended to the reports when presented to the House. As a consequence, it was unanimously—

Agreed,—That, in future, witnesses before this Committee be allowed not later than the day following their hearing to complete their editing of the transcript of evidence.

Ordered,—That the Chairman present forthwith the Committee's Second and Third Reports to the House.

At 4.00 p.m., the Committee adjourned to the call of the Chair.

A. Small,
Clerk of the Committee.

EVIDENCE

MONDAY, March 18, 1957.
10.45 a.m.

The CLERK: Gentlemen, you have a quorum. Your first item of business is to elect a chairman.

Mr. CARTER: I would move that Mr. Cavers be chairman of this committee.

Seconded and agreed to.

The CHAIRMAN (*Mr. Cavers*): Gentlemen, I appreciate very much the honour of being chairman of this committee again, which honour I have had for the past couple of sessions. This is a very interesting committee and I know members will attend the meetings and take a great interest in the affairs that are discussed.

I think that we should have nominations for the appointment of a vice chairman of the committee. It has been customary to have a vice chairman of this committee.

Mr. FOLLWELL: Mr. Chairman, I would nominate Mr. Henry McCulloch as vice chairman.

Seconded by Mr. Byrne and agreed to.

The CHAIRMAN: Are there any further nominations?

I declare Mr. Henry McCulloch (*Pictou*), vice chairman of this committee.

At this time I believe it would be appropriate to have a motion to reduce the quorum of the committee.

Mr. MCCULLOCH (*Pictou*): I move, seconded by Mr. Hamilton that a recommendation be made to the house to set the quorum of the committee at ten members.

Agreed.

The CHAIRMAN: May we have a motion to sit while the house is sitting.

Mr. HAHN: I move, seconded by Mr. Johnston that recommendation be made to the house authorizing the committee to sit while the house is sitting.

Agreed to.

The CHAIRMAN: Now, we might have a motion to print the proceedings and evidence of the committee and that standing order 66 be suspended in relation thereto.

Mr. BYRNE: I move, seconded by Mr. Carter, that recommendation be made to the house to empower the committee to print from day to day 1,000 copies in English and 250 copies in French of its minutes of proceedings and its evidence and that standing order 66 be suspended in relation thereto.

Agreed.

The CHAIRMAN: Before proceeding with the business of the committee I wish to point out to the members that I have been asked by the president and the officials of Trans Canada Air Lines to extend an invitation to the committee to attend a flight on Thursday at 12 o'clock to view the St. Lawrence seaway from Cornwall to Montreal from the air. It is proposed to leave the buildings at 11:30, proceed to Uplands where lunch will be served on board the plane, and then an opportunity will be given to view the project from the air. If it is the wish of the committee that this procedure be carried out I will so advise the officials of Trans Canada Air Lines.

Agreed to.

Gentlemen, we have with us today Mr. Donald Gordon, President of the Canadian National Railways, Mr. S. F. Dingle, and Mr. R. D. Armstrong.

Without further discussion I will ask Mr. Gordon to read the annual report of Canadian National Railways for the year 1956.

Mr. DONALD GORDON, *C.M.G., LL.D., (President, Canadian National Railways)*: Thank you, Mr. Chairman. I shall begin by reading into the record the letter of transmittal which appears on page 4 of the report.

CANADIAN NATIONAL RAILWAYS

Montreal
FEBRUARY 15, 1957.

DONALD GORDON
Chairman and President

The Honourable George C. Marler, M.P.,
Minister of Transport,

Ottawa, Ontario.

Dear Sir:

On behalf of the Board of Directors I submit herewith the Annual Report of Canadian National Railways for the year 1956.

I regret to record the death during the year of a valued member of the Board, Mr. B. L. Daly of Montreal, who had served as a director of the Canadian National since 1936.

On December 19 by Order in Council No. 1903, Mr. James R. Griffith of Toronto was appointed a director.

The Management acknowledges with sincere appreciation the loyal and efficient service of all personnel throughout the company.

Yours truly,

(Signed) D. GORDON

(Page 4 of C.N. Report)

ANNUAL REPORT 1956

1. In 1956, the Canadian National carried a record volume of traffic. Operating revenues and expenses both rose to new peaks. The end result, after payment of fixed charges, was a surplus of $26,076,951, on which income tax was not payable by reason of losses in prior years. This surplus represents a dividend of 3.1% on the non-cumulative 4% preferred stock held by the Government of Canada.

2. As a matter of interest, the company's financial results are summarized in the following five-year comparison, which takes as its starting point the year in which the Canadian National Capital Revision Act was passed.

	1956	1955*	1954	1953	1952
			(Millions of Dollars)		
Operating revenues ..	$774.8	$689.3	$640.6	$696.6	$675.2
Operating expenses ..	703.3	635.3	626.4	659.0	634.8
Net operating revenue	71.5	54.0	14.2	37.6	40.4
Taxes, rents less other income	13.6	10.2	10.5	8.0	14.9
Available for fixed charges	57.9	43.8	3.7	29.6	25.5
Fixed charges	31.8	33.1	32.5	29.4	25.4
Surplus or *deficit*	$ 26.1	$ 10.7	$ *28.8*	$ 0.2	$ 0.1

*New accounting regulations came into effect on January 1, 1956. In this report the 1955 figures have been restated, as explained in the notes on page 28, to form a basis for comparison with the 1956 results.

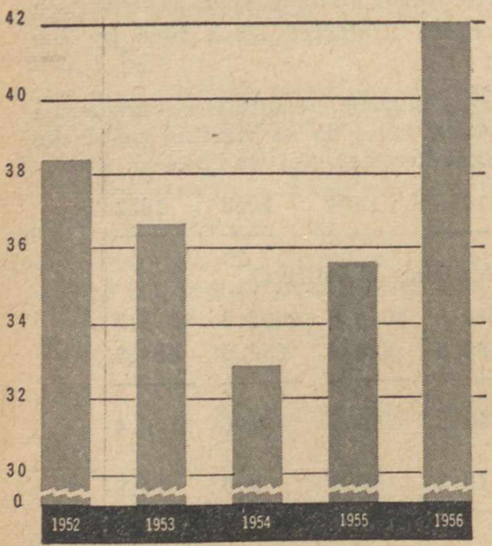
The figure $26.1 on the last line of the table above is a surplus, also $10.7, $0.2 and $0.1.

3. These figures reflect the degree to which railway earnings are sensitive to changes in the level of traffic. Demands for rail service may vary sharply in a relatively short period, and even a modest variation in traffic volume may mean the difference between a surplus and a deficit. It will be noted that CNR net income, from a breakeven position in 1952, has ranged from a deficit of $28.8 million in 1954 to a surplus of $26.1 million in 1956. Average net income for the five-year period works out to approximately $1.7 million a year.

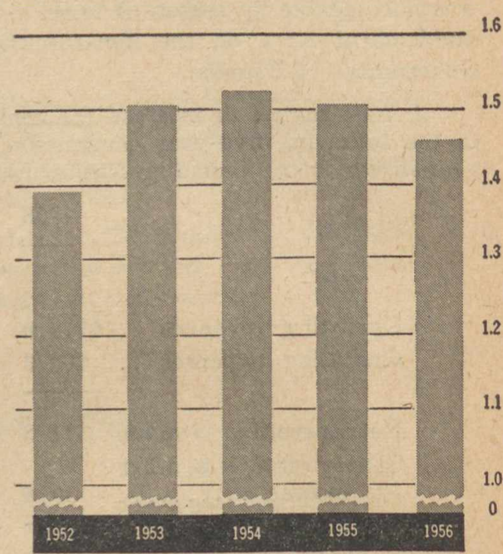
(Page 5 of C.N. Report)

TRAFFIC VOLUME AND UNIT REVENUES *

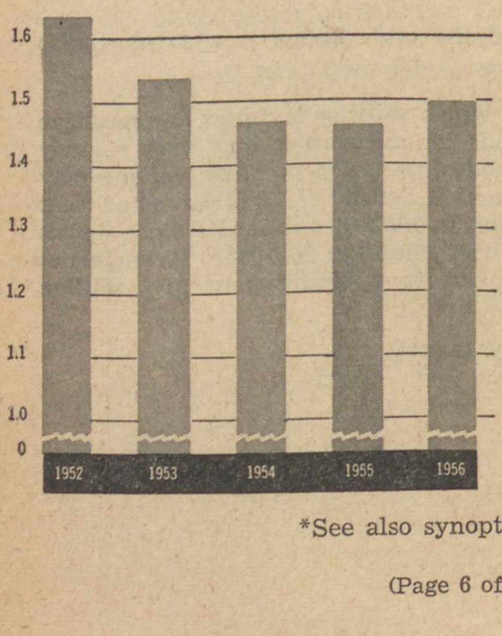
REVENUE FREIGHT TON MILES
(*In Billions*)



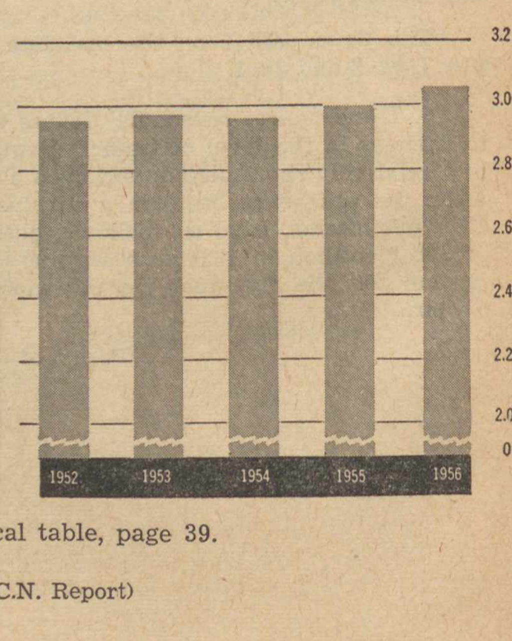
AVERAGE REVENUE PER TON MILE
(*In Cents*)



REVENUE PASSENGER MILES
(*In Billions*)



AVERAGE REVENUE PER PASSENGER MILE
(*In Cents*)



*See also synoptical table, page 39.

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TRAFFIC AND REVENUES

Freight

4. Freight revenue rose to an all-time high of $612.8 million, up $72.6 million from the comparable 1955 results, and accounted for 79% of total operating revenues. Revenue from other freight services showed a parallel improvement and amounted to $19.1 million.

5. In 1956, Canadian National carried 99 million tons of revenue freight an average distance of 423 miles. Revenue ton miles, the product of these two factors, rose by 17.5% to a new high. While nearly all types of shipments increased in volume, the biggest gains were in agricultural and mine products, notably grain, iron ore and coal. Grain tonnage was up 37%. The principal decrease took place in automobiles and parts, due to a decline in production. A detailed statement of changes in tonnage appears on page 38 in the statistical section.

6. The traffic pattern again showed a concentration of gains in the lower valued bulk commodities, with result that unit revenues declined for the second year in succession. The average revenue received by the railway for hauling one ton of freight one mile fell from 1.51 cents in 1955 to 1.46 cents in 1956.

7. In June the Board of Transport Commissioners authorized an interim increase of 7% in freight rates, effective July 3, pending further consideration of the railways' application for a 15% general increase. On coal and coke the increase was limited to 12 cents per ton. In December, as a measure of additional interim relief pending final determination of the application, the Board amended the general increase to 11% and raised the limit of the increase on coal and coke rates to 18 cents a ton, both effective January 1, 1957.

8. In the United States, the Interstate Commerce Commission authorized a general 6% increase in freight rates, effective March 7, 1956, and a further interim increase of 7% in the east and 5% in the west, effective December 28. The increases were also applied to international traffic between the United States and Canada.

9. The additional revenue which these rate increases produced in 1956 fell substantially short of meeting the additional cost of higher wages and other benefits and increased material prices incurred during the year.

Passenger

10. The railway carried more intercity passengers and fewer communters in 1956. In consequence the average journey was longer and passenger miles increased by 2.5%, despite a decline in the total number of passengers to 16 million, of which 37% were commuters.

11. Passenger revenues rose by $1.6 million to $45.8 million. Revenue from other passenger services, including sleeping, dining and parlor car sales, showed an improvement of 4% and amounted to $10.6 million.

12. The second stage of the increase in commuter fares authorized by the Board of Transport Commissioners in 1954, as described in the previous annual report, was applied on May 1, 1956, in all commutation areas except Toronto, where it was already in effect.

13. In the United States, the Interstate Commerce Commission granted rail carriers an increase of 5% in passenger fares and 7½% in sleeping car and parlor car fares, effective May 1. International sleeping car and parlor car charges and certain passenger fares in Canada were increased as a result.

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Express

14. Revenues earned by the Express Department totalled $42.4 million, up $4.4 million from 1955. The increase of 11.7% arose from higher unit charges and an improvement in the composition of traffic which more than offset a decline in the number of shipments.

Communications

15. The volume of communications business continued to grow in 1956 with the result that revenues earned by Canadian National Telegraphs reached a new high of $19.9 million, an increase of 7.5% over 1955. The number of revenue messages handled rose by 2.7% to 12.9 million. This increase, combined with an upward adjustment in Canada-U.S. rates that came into effect on September 24, produced a 5.2% rise in message revenue. Non-transmission revenues were up almost 12% on the strength of the continued expansion of private wire, radio-TV and related services.

OPERATING EXPENSES

16. In spite of economies realized through improved operating performance, operating expenses reached a record level of $703.3 million in 1956, up 10.8% from the comparable 1955 figure. More than half of this increase was the result of higher wage rates and material prices; the balance is attributable to the expanded volume of business handled.

17. Payrolls are the largest element of expense in railway operation; in 1956 they reached a new peak of $423.6 million and accounted for 60.2% of total operating expenditures.

18. In May, a two-year agreement based on the report of a Conciliation Board was signed with 15 unions representing non-operating employees. The contracts, which became effective on April 1, provided for an increase of 11% in basic wage rates to take effect in four stages, two additional paid holidays for hourly rated employees, and a health and welfare plan to which railways and employees would each contribute $4.25 per employee monthly. Of the wage increase, 3% was retroactive to January 1, 1956; this was increased to 6% on April 1, and to 8% on November 1. The final instalment will bring it to 11% on June 1, 1957.

19. The health and welfare plan, developed by a joint union-management committee, was brought into effect on January 1, 1957. A similar plan was also established on the same date, on a voluntary basis, for Canadian National employees in Canada who are not covered by wage agreements and an extension to supervisory officers is under study.

20. Two-year agreements were made with the Brotherhood of Locomotive Firemen and Enginemen, and the Brotherhood of Locomotive Engineers, dating from April 1 and May 1 respectively. These agreements provided for wage increases of 11% spread over two years, and for the payment by the company of $4.25 a month to each employee, beginning January 1, 1957, in lieu of a health and welfare plan. Another agreement, based on the report of a Conciliation Board, was signed with the Brotherhood of Railroad Trainmen, for a period of 26 months dating from April 1, 1956.

21. The foregoing settlements when they are fully in force will add an estimated $40 million annually to operating expenses.

22. A three-year agreement providing for wage increases, cost-of-living adjustments and additional health and welfare benefits was concluded on November 1 with non-operating employees on United States lines, following mediation proceedings. An agreement with the Brotherhood of Locomotive Firemen and Enginemen was patterned after this settlement. Contract negotiations with other running trades in the United States were still outstanding at the end of the year.

23. In 1956, the increase in operating expenses due to new wage settlements and consequential adjustments in the compensation of other employees amounted to $23.7 million.

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Taxes, Rents, Other Income and Fixed Charges

24. Taxes paid by the railway in 1956 increased slightly to $14.7 million. Rents advanced from $3.5 million in 1955 to almost $10 million in 1956, as a result of increased rentals on foreign-line freight cars. This was a direct consequence of heavier traffic and it occured in spite of an improvement in the average utilization of freight equipment from 882 to 954 net ton miles per serviceable car day.

25. Other income increased by $3.5 million to $11.1 million. The net improvement resulting from a number of changes in this miscellaneous group of accounts, including increased profit from land sales and foreign exchange transactions.

26. At $31.8 million, fixed charges were down by $1.3 million from 1955. The company repaid $76.8 million in public issues which fell due during the year and this, together with $77.4 million in new loans, resulted in an increase of $154.2 million in short-term loans from the government. Details of these transactions will be found on page 33.

Hotel Operations

27. There was a small decrease in both the volume of patronage and earnings of Canadian National hotels in 1956. The number of guests accommodated at the seven year-round hotels and Jasper Park Lodge totalled 641,591, as compared with 659,672 in 1955. Increases in wages and material prices were reflected in higher room and meal rates. The net income of Canadian National Hotels, Limited amounted to $1.6 million after depreciation; this was before provision for return on investment and represented a decrease of $39,697 from 1955.

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GROWTH AND PROGRESS

28. A growing economy brought new opportunities for service, and new responsibilities, to the Canadian National in 1956. And the Canadian National, in turn, helped the economy to grow.

29. In the interests of serving industrial expansion, the railway's officers kept in close touch with economic activity in every area served by the system and rendered assistance to companies planning to enlarge their operations. To meet the transportation needs associated with the growth of the economy, the CNR continued in 1956 to increase its physical capacity, modernize its facilities and improve methods and techniques. The consistant objective has been to provide better service at lower cost.

30. Additions and improvements to plant and equipment are reflected in changes in the property investment account, shown on page 32. A list of changes in the equipment inventory may be found on page 36.

Dieselization

31. Canadian National's five-year dieselization program, running from 1952 through 1956, was based on the policy of selectively applying diesel-electric power to specific runs and services. This approach, with its emphasis on intensive utilization of the new locomotives, offered a greater return on investment in the early stages of the transition than dieselization by geographic areas.

32. Prior to the five-year program there were certain areas, such as Prince Edward Island and the Gaspe peninsula, where special conditions led to an early introduction of complete dieselization. More recently, operating circumstances have supported other selected territorial applications. In 1956, units were acquired to complete the conversion of Newfoundland operations, the system's New England lines and the Duluth, Winnipeg and Pacific Railway. Additional locomotives scheduled for delivery in March and April of 1957 will complete the dieselization of the Central Vermont Railway and the Chicago division of the Grand Trunk Western Railroad.

33. In 1957 a new phase is being inaugurated. It involves the progressive dieselization of geographic areas starting from the east and west coasts and working towards Central Canada.

34. With the delivery of 324 units, more diesel locomotives were placed in service during 1956 than in any other calendar year. By year's end Canadian National was operating a total of 1,105 diesel units on its lines in Canada and the United States. These accounted for 54% of freight gross ton miles, 70% of yard switching hours and 39% of passanger car miles, despite the fact that a number of steam locomotives being held for retirement had to be returned to service to handle heavier traffic.

35. Operating economies experienced to date through dieselization have fully justified the original expectations. It should be noted, however, that maintenance expenditures reflect the benefit of a relatively new inventory of diesel equipment at this stage of the program, and that servicing and repair costs can be expected to rise as the average age of the locomotives increases.

36. Further steps were taken to implement the planned conversion of shops and servicing facilities, and re-arrangement of work programs, from steam to diesel maintenance. The tempo of the diesel educational program was increased as total enrolment in part-time courses reached a new high of 2,724 employees at year end. Of these, 2,466 have completed the basic maintenance course and are now taken more advanced courses.

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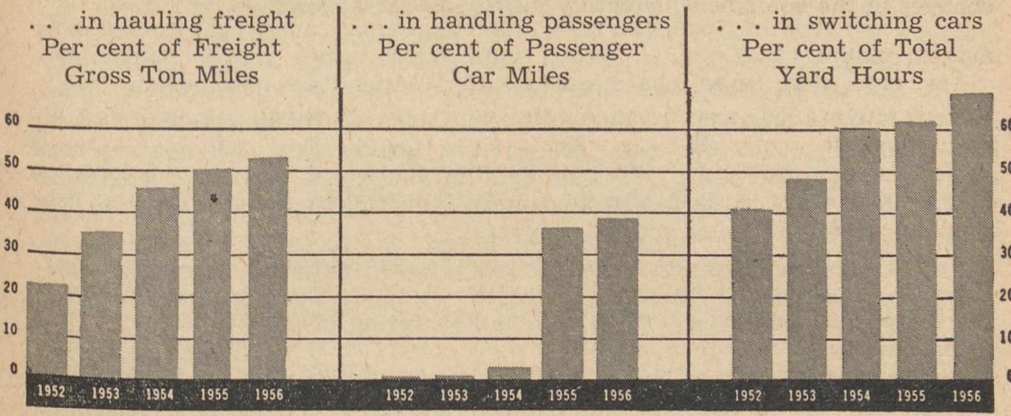
37. Another aspect of the change associated with the transition from steam to diesel operation was the extension of a number of passing siding during the year to accomodate longer diesel-hauled trains.

38. While orders are continuing to be placed for new diesel-electric locomotives, close attention is being given to progress in the developement of other forms of motive power with a view to taking advantage of technological improvements as they become available. In 1956, for example, extensive road tests were carried out with a diesel-hydraulic road switcher, and in the early part of 1957 further tests were being conducted in Western Canada to determine this locomotive's performance in cold weather conditions.

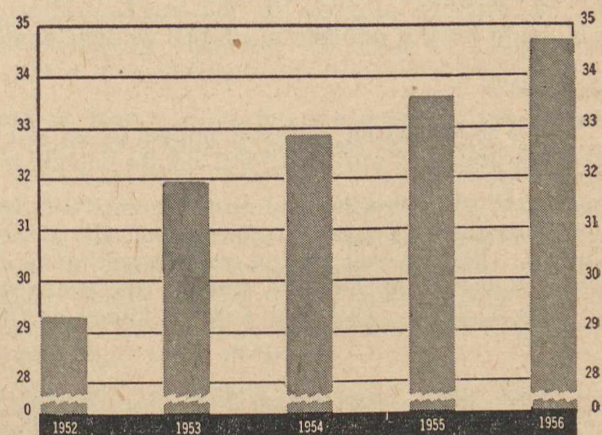
THE ROLE OF THE DIESEL



GROSS TON MILES PER FREIGHT TRAIN HOUR

(*In Thousands*)

This statistic is one measure of freight train performance. It represents the average number of gross tons moved one mile, for each hour freight trains operated.



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Rolling Stock

39. In the 1956 the CNR again took the initiative in developing new transportation equipment to meet the special requirements of particular industries. A new pulpwood car, designed by Canadian National engineers was placed under test in revenue service during the year. It will carry about 70% more pulpwood than the standard end-racked flat-car, and will minimize the risk of load shifting in transit. The car's design allows it to be loaded and unloaded either manually or mechanically and makes possible a substantial saving in handling costs.

40. Also in test service is the prototype of a new multi-purpose box car equipped with a combination of hinged and sliding doors to facilitate the handling of a variety of types and sizes of shipments. This construction makes available three different door widths ranging up to 15 feet 5 inches.

41. Another highlight was the delivery of 25 of the new double-deck automobile transporter cars designed by Canadian National in 1955. The first of their type in North America, these cars each carry eight automobiles instead of the usual four. Special lightweight ramps enable automobiles on the upper deck to be loaded and unloaded under their own power.

42. A total of 4,685 freight cars were added to CNR's existing fleet in 1956, including 3,653 box cars, 406 covered hopper cars, 300 gondola cars and 226 refrigerator cars. This brought to 23,684 the number acquired in the last five years to modernize and adjust the freight-car inventory to the changing requirements of today's shippers.

43. Automatic washing facilities for the rapid exterior cleaning of passenger cars are being installed in coach yards at Toronto and Montreal. They are expected to be in operation in the spring of 1957.

Roadway

44. The rail-laying program planned and completed during 1956 was one of the largest carried out in any postwar year. New rail was laid in 779 miles of track, as compared with 562 miles in 1955, and the amount of part-worn rail laid in place of older rail increased from 215 to 405 miles. The roadway betterment program also embraced extensive improvements to drainage and subgrade and the spreading of large tonnages of new ballast.

45. Further progress in the mechanization of track maintenance work was made by the acquisition of $3.5 million worth of new roadway machines.

New Lines

46 The Canadian National added to its rail network in 1956. Line extensions branched out at several points on the system map.

47. Work was advanced on the new 158-mile line from Beattyville to the rich mineral and forest resources of the Chibougamau area in Northern Quebec. By the end of the year, tracklaying had progressed to Mile 132, initial ballasting to Mile 123, and the line is expected to be ready for operation by July 1, 1957. This line will be joined at Chibougamau by another new

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line now being constructed from St. Felicien in the industrial region of Lake St John. By year's end, virtually all of the clearing and 56% of the grading had been completed on the 66-mile section between St. Felicien and Lake Chigoubiche, about halfway to Chigougamau.

48 In September, work began on the construction of a 22-mile branch line from Bartibog to the Heath Steele mine site in New Brunswick. Later in the year, a basis for agreement was reached with the International Nickel Company with respect to a 32-mile branch line to be constructed in Manitoba from Sipiwesk, on the Hudson Bay Railway, into the new base metal development at Moak Lake.

49. Construction of the 40-mile diversion of CNR's main line between Cornwall and Cardinal, in preparation for the flooding of existing trackage in this area by the St. Lawrence Seaway, was virtually completed in 1956 by the Hydro-Electric Power Commision of Ontario, using plans and specifications supplied by Canadian National. The new section will be placed in operation in the summer of 1957.

50 During the year, 270 industrial sidings spurs and track extensions were built, totalling 52 miles.

51 The railway was authorized to abandon 16.6 miles of line in 1956.

Signals

52. Further progress was made during 1956 in the extension of signal installations on heavy-traffic main lines. An additional 140 miles of automatic block signals, work on which was started in 1955, were placed in operation in mountain territory, thus completing the extension of this signalling system throughout the 437 miles betweeen Jasper, Alta., and Hope, B.C.

53. Centralized Traffic Control was installed on 34.8 miles of Grand Trunk Western line between Flint and Port Huron in Michigan, bringing to 43.2 the number of miles equipped with C.T.C. between Durand and Port Huron. This will permit the removal of 40 miles of track by single-tracking what is now a double-track operation.

54. During the year, Canadian National also completed detailed studies in which justification was found for an extensive long-range application of Centralized Traffic Control. As a result, a planned program now exists for the ultimate installation of C.T.C. on more than 4,000 single-track miles of transcontinental main line. This program, which will involve heavy capital expenditures, will be advanved gradually in successive annual stages.

Yards and Terminals

55. Work advanced on the expansion and improvement of yard and terminal facilities in 1956. Long-range plans were formulated for the concentration of train marshalling operations at main strategic centres with the aim of speeding car movements by reducing switching at intermediate points and cutting down on terminal handling time.

56. In line with this objective, land was cleared and drainage and grading are in progress for the new Cote de Liesse hump yard in Montreal, where a new diesel shop is being located. When completed, this yard will be one of the largest in North America and will incorporate the latest electronic devices for automatic control of car switching. Comparable improvements are also under study for yards at Moncton, Toronto and Winnipeg; the size and nature of the installations would vary with the volume and type of traffic to be handled. The pace at which these projects will be advanced will be affected by the economic outlook.

57. Meanwhile, other yard extensions designed to relieve congestion were completed or progressed during the year at Joffre, Que.; Sarnia, Ont.; Edmundston and Saint John, N.B.; Truro, N.S.; and Flint and Battle Creek. Mich.

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Montreal Terminal Development

58. In October an agreement was signed with Webb & Knapp (Canada) Limited, for the formulation of a master plan for the development of CNR's 23-acre terminal area surrounding Central Station in Montreal. Under the agreement, Webb & Knapp (Canada) must submit within a limited time a plan acceptable to the railway's board of directors. On acceptance of the plan, the real estate company would lease 4.4 of the 23 acres for a period up to 99 years and undertake to develop the leased property within five years. The railway will continue to welcome proposals from any interested parties for the development of property in the rest of the terminal area, where private capital is already represented by a new 10-storey office building.

59. The 4.4 acres mentioned above flank "Place Ville-Marie", the new plaza being built by CNR running north from Dorchester Street in front of The Queen Elizabeth. The plaza was named during the year to commemorate the first community founded on the site of what is now Montreal.

Hotels

60. Construction of The Queen Elizabeth in Montreal went ahead on schedule in 1956. By the end of the year, steel and concrete work were complete, the exterior walls were well advanced, and satisfactory progress was being made in the interior finishing and development of furnishings and equipment. Opening of the hotel is scheduled for the spring of 1958.

61. In other CNR hotels a number of capital improvements in addition to the regular maintenance and refurbishing program were carried on in 1956. Among these were the modernization of 128 bedrooms in the old wing of the Chateau Laurier in Ottawa and improvement of certain guest and staff facilities at Jasper Park Lodge.

Communications

62. Facilities were again expanded and improved in 1956 to meet new and growing demands for communication services. Telegraph channel mileage increased to 504,398, up 12% from 1955, and telephone channel mileage rose to 103,311, an increase of 10%. Meanwhile a program was established for general expansion of trunk telegraph and telephone facilities through the extensive application of high-frequency multi-channel carrier systems.

63. Joint Canadian National—Canadian Pacific microwave relay facilities for the CBC's television network were extended during the year to Wingham, Ontario, and to Sherbrooke, Quebec. Work was well advanced on the construction of similar facilities to Jonquiere and Rimouski. In addition, arrangements were completed with CBC for the construction by Canadian National alone of a microwave TV extension between Sydney, Nova Scotia, and St. John's, Newfoundland.

64. On October 15, Canadian National introduced station-to-station and night and Sunday telephone rates both within Newfoundland and between Newfoundland and points in Canada and the United States. At the same time, person-to-person telephone rates were reduced on calls between the island and mainland points in Canada and U.S.

65. A new international communication service known as "Telex" was offered to Canadian subscribers. It provides instantaneous two-way written communication between Canada and the United Kingdom and Europe through teletype units installed in subscribers' offices.

66. A new and faster method of transmitting quotations from the Toronto Stock Exchange was inaugurated on July 12. By means of the world's first magnetronic bid-and-ask quotation system. Toronto brokers are able to see, on a large panel in their own offices, a continuous display of prices on fifty stocks of their own choice.

67. The relocation of all main office operations to the new communications building in Toronto was completed. A new communications building was also completed at St. John's during the year.

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Services Improvements

68. The east-west schedule of the Super Continental from Montreal and Toronto to the Pacific Coast was shortened by 40 minutes. A new fast mail train service with a running time of 6½ hours in each direction was inaugurated between Montreal and Toronto.

69. Another self-propelled diesel Railiner was placed in operation between Edmonton and Calgary to accommodate the expanding volume of traffic attracted by this service since its introduction late in 1955. Between Fort William and Longlac, Ontario, steam trains were replaced with a twice-daily bus service making connections with both transcontinental trains at Longlac. Trailer trucks provide daily freight service on the same run.

70. A special committee of senior headquarters and district railway officers was established to study the technical aspects of Newfoundland's transportation requirements and to formulate long-range plans for rail and water services in keeping with the province's economic growth.

71. Daily train service across Newfoundland, between St. John's and Port aux Basques, was extended through the winter and spring months. Two new passenger-cargo ships, the motor vessels Bonavista and Nonia, were placed in operation in the Newfoundland coastal service during the year.

Research and Experimentation

72. Never in its history has the railway industry been so involved in change and adjustment. In virtually every phase of activity, the Canadian National is conducting analytical studies or carrying out tests and research, trying new methods and striving to keep in step with developing technology.

73. In the field of technical research, further improvements in the quality of products purchased by the railway were made as a result of the continued testing of materials and development of new specifications.

74. New standards were developed in our research laboratories for tableware, furnishings and other materials for The Queen Elizabeth. New methods of processing rail anchors, which will substantially increase their service life, were also established, along with improved procedures for the reclamation of used rail anchors, diesel lubricating oil filters and other parts.

75. Extended use was made of spectrographic analysis of diesel lubricating oil as an effective means of controlling oil quality and detecting any abnormal wear or corrosion of engines at an early stage. Progress was also made in the application of the supersonic method of detecting structural flaws in locomotive and car parts.

76. Tests were conducted in 1956 on the use of end-to-end radio communication in train operations.

77. Progress was made during the year in the evolution of more effective statistical and cost control systems for operating expenses. Studies directed toward the further mechanization of clerical functions were continued and extended. Plans were completed for establishing a data processing centre using magnetic drum computing equipment early in 1957. This will be used initially in processing data currently handled with less advanced electronic equipment and will facilitate the application of integrate data processing techniques to other activities to permit the analysis of massive amounts of detailed information.

Competition

78. Underlying these verious projects is one common objective. to place the company in a better position to meet the reality of growing competition and the pressure of rising costs. To this end, the CNR is re-appraising its pricing practices and the type of service and equipment the public wants and is prepared to pay for.

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79. In competing for freight traffic, the railway made more extensive use of agreed charges and the principle of incentive rates, under which shippers are offered price inducements to load cars closer to their physical capacities. The trailer-on-flatcar service continued to attract an increasing volume of business and, as a result, 26 new trailers were placed in service during the year.

80. The failure of passenger revenues to meet the directly traceable cost of providing service continues to give management concern, and many avenues are being searched for ways of treating the problem. A major aim is to encourage volume patronage by providing modern functional low-cost service. Some progress has been made through the introduction of inexpensive meal service on trains. Popular acceptance of dinette and coffee shop service, which in 1956 accounted for one-third of all meals served on CNR trains, has prompted the placing of orders for five additional dinette cars, which will be delivered in 1957. A new experiment involves the conversion of two dining cars to provide for cafeteria service. These cars are being placed in service experimentally betweeen Montreal and Mont Joli.

81. Self-propelled rail cars have raised patronage and lowered operating costs on several runs, and nine more are being purchased for operation in 1957 in selected services. Possibilities of substituting these Railiners for conventional trains wherever conditions appear favorable are under continuous study.

82. Other measures aimed at stimulating passenger traffic have included a broader application of incentive fares for midweek travel, one-day excursions and family trips, and continuing emphasis on the promotion of all-inclusive package tours, convention, immigration, special-event and hunting and fishing travel. Using the findings of a travel motivation study, the Canadian National reshaped its sales and advertising programs in the United States during the year.

GENERAL

Corporate Reorganization

83. In 1956 the number of system companies was reduced from 64 to 45. This was accomplished mainly through the elimination of a group of companies, including the Canadian Northern Railway Company, the Grand Trunk Pacific Railway Company and several of their subsidiaries, by amalgamation with the Canadian National Railway Company. Steps are being taken for the further simplifiction of the system's corporate structure.

Co-operation under the Canadian National-Canadian Pacific Act, 1933

84. Possibilities of effecting co-operative economies through extension of passenger train pooling arrangements were examined jointly by the two railways during the year. Two specific projects were studied but because of a number of factors which complicate and limit the application of such measures, no extension of pool services was arranged.

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FINANCIAL AND STATISTICAL STATEMENTS

for the year ended

DECEMBER 31, 1956

Consolidated Balance Sheet

Notes to Consolidated Financial Statements

Consolidated Income Statement

Operating Revenues and Operating Expenses

Property Investment Statement

Recorded Depreciation Statement

Long Term Debt and Shareholders' Equity

Companies Comprising the Canadian National Railway System

Investments in Affiliated Companies not Consolidated

Source and Application of Funds

Equipment Placed in Service

Inventory of Railway Equipment

Statistics of Rail-line Operations

Revenue Tonnage by Commodities

Operated Mileage

A 25-year Synoptical History of Canadian National Railways

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1956

ASSETS

Current Assets		
Cash on hand and on deposit	$ 27,306,239	
Temporary cash investments	6,383,508	
Accounts receivable	66,554,827	
Material and supplies	92,203,241	
Other current assets	7,886,962	$ 200,334,777
Insurance Fund		15,000,000
Investments in Affiliated Companies Not Consolidated		87,055,287
Property Investment		
Road	1,893,914,710	
Equipment	1,114,829,232	
Other physical properties	84,667,934	
	3,093,411,876	
Less recorded depreciation	461,123,003	2,632,288,873
Other Assets and Deferred Charges		
Other investments	1,688,516	
Prepayments	3,155,415	
Unamortized discount on long term debt	5,562,144	
Other deferred charges	17,954,168	28,360,243
		$2,963,039,180

LIABILITIES

Current Liabilities		
Accounts payable	$ 83,454,578	
Accrued charges	13,279,049	
Other current liabilities	2,584,222	
Dividend payable to Government of Canada	26,076,951	$ 125,394,800
Provision for Insurance		15,000,000
Other Liabilities and Deferred Credits		28,630,404
Long Term Debt		
Bonds, debentures and equipment obligations	819,569,512	
Government of Canada loans and debentures	353,664,828	1,173,234,340

SHAREHOLDERS' EQUITY

Government of Canada		
6,000,000 shares of no par value capital stock of Canadian National Railway Company	396,518,135	
838,603,203 shares of 4% preferred stock of Canadian National Railway Company	838,603,203	
Capital investment of Government of Canada in the Canadian Government Railways	381,149,628	
	1,616,270,966	
Capital Stock of Subsidiary Companies Owned by Public	4,508,670	1,620,779,636
		$2,963,039,180

The notes appearing on page 28 are an integral part of this Balance Sheet.

R. D. ARMSTRONG,
Comptroller.

AUDITOR'S REPORT

To The Honourable The Minister of Transport,
Ottawa, Canada.

We have examined the books and accounts of the Canadian National Railway System for the year ended 31st December, 1956. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the above consolidated balance sheet and the related consolidated income statement are prepared on a basis consistent with that of the preceding year except for the changes in accounting policies described in Notes 1 and 2 which we approve, and subject to the position with regard to depreciation accruing prior to the adoption of depreciation accounting referred to in Note 1,

are properly drawn up so as to give a true and fair view of the state of the System's affairs at 31st December, 1956 and of the results of operations for the year according to the best of our information and the explanations given to us and as shown by the books of the System.

We further report that in our opinion proper books of account have been kept by the System and the transactions of the System that have come under our notice have been within the powers of the System.

We are also submitting a supplementary explanatory report.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

1st March, 1957.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 1956

Note 1. Property Investment:

Depreciation on Canadian Lines: Whereas in prior years replacement accounting was applied to track structures and retirement accounting to road structures and certain other fixed properties, depreciation accounting has been applied to all physical property except land from January 1, 1956 including equipment and hotel property in respect of which depreciation accounting was adopted in 1940 and 1954 respectively. The rates used are based on the estimated service life of the properties without allowances for depreciation which was not recorded in prior years under the replacement and retirement accounting principles then in force. The full adoption of the depreciation principle in accounting for property had no material effect on the net operating results for the year 1956 and it would have had no material effect on the net operating results for the year 1955. The change in principle was made pursuant to the adoption of the uniform classification of accounts prescribed by the Board of Transport Commissioners for Canada and the depreciation rates have been approved by the Board.

Depreciation on U.S. Lines: The policy of applying replacement accounting for track and depreciation accounting for equipment and other physical property except land has been continued. The principles of accounting for these operations are prescribed by the Interstate Commerce Commission and the rates have been approved by that body.

Book Values and Recorded Depreciation: During the year adjustments totalling $173,302,045 were made increasing the book values of properties and equipment with a corresponding increase in recorded depreciation to record amounts not included in these accounts under previous accounting policies. Without making a physical appraisal it is not feasible to determine the amount of depreciation accruing prior to the adoption of depreciation accounting; the foregoing adjustments have the effect of providing in part for such depreciation.

Additions since January 1, 1923 have been recorded at cost and properties and equipment brought into the System at January 1, 1923 are included at the values appearing in the books of the several railways now comprising the System to the extent that they have not been retired or replaced.

Note 2. Income Statement and Statistics:

In accordance with the requirements of the uniform classification of accounts adopted in 1956 the operating results of the Company's electric lines and cartage and transport services are classified according to the respective revenue and expense accounts of the rail operations. Previously the results of these operations had been included in a net amount as income from separately operated properties, but for comparative purposes the revenues and expenses for 1955 have been classified in the financial statement in the same manner as in 1956. This re-classification has had no effect on the net operating results of either year. The 1955 data appearing in the statistical statements have not been adjusted because the comparability is not materially affected.

Note 3. Income Taxes:

By reason of losses in prior years which may be carried forward for income tax purposes no provision is required for income taxes in respect of the current year's earnings.

Note 4. Capital Stock:

The capital stock of the Canadian National Railway Company (other than the four per cent preferred stock) and the capital investment of Her Majesty in the Canadian Government Railways are included in the net debt of Canada and are disclosed in the historical record of government assistance to railways as shown in the Public Accounts of Canada.

Note 5. Pension Trust Fund:

During 1956 the funds which had been accumulated in respect of pension liabilities were transferred to a Pension Trust Fund. These funds, which amounted to $153,550,588 at December 31, 1956, represent provision for pensions in force under the 1935 plan, but not for pensions granted under prior plans or for increased benefits granted to employees who were contributors under the 1935 plan and who retired on pension prior to January 1, 1952. Consistent with its established practice the railway has made no transfer or allocation of funds for pensions conditionally accruing in respect of employees now in service.

Note 6. Commitment to Chicago & Western Indiana Railroad Company:

Pursuant to a joint supplemental lease dated May 1, 1952, the Grand Trunk Western Railroad Company and four other proprietory-tenant companies are obliged to pay, as rental, sinking fund payments sufficient to retire bonds at maturity and interest as it falls due with respect to First Collateral Trust Mortgage 4⅝% Sinking Fund Bonds Series "A" due May 1, 1982. The Grand Trunk Western's proportion is one-fifth in the absence of default of any of the other tenant companies. The bonds outstanding at December 31, 1956 total $58,183,000.

Note 7. Major Guarantees:

(a) The Grand Trunk Western Railroad Company is jointly and severally liable as guarantor of principal, interest and sinking fund payments with respect to $3,000,000 First Mortgage 3¼%-30 year Series "A" Bonds, due December 1, 1982, of the Detroit & Toledo Shore Line Railroad Company.

(b) The Grand Trunk Western Railroad Company is severally liable as guarantor to the extent of 9.68% of the interest with respect to $6,000,000 First Mortgage 4½%-50 year Gold Bonds due 1957 of the Toledo Terminal Railroad Company.

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CONSOLIDATED INCOME STATEMENT

	1956	1955 (Re-stated See Note 2)
Railway Operating Revenues		
Freight services	$631,880,409	$556,696,445
Passenger services	56,397,814	54,359,241
Express	43,269,566	38,907,456
Communications	19,881,534	18,490,382
All other	23,371,324	20,816,264
Total operating revenues	774,800,647	689,269,788
Railway Operating Expenses		
Road maintenance	140,379,408	125,747,916
Equipment maintenance	142,251,485	130,598,213
Traffic	13,441,595	12,484,759
Transportation	346,127,246	308,628,264
Miscellaneous operations	7,201,150	6,754,938
General	53,902,678	51,108,794
Total operating expenses	703,303,562	635,322,884
Net revenue from railway operations	71,497,085	53,946,904
Taxes and Rents		
Railway tax accruals	14,733,987	14,274,947
Equipment rents—Net debit	9,758,278	3,304,365
Joint facility rents—Net debit	213,010	210,234
Total taxes and rents	24,705,275	17,789,546
Net railway operating income	46,791,810	36,157,358
Other Income		
Income from lease of road	45,362	49,520
Miscellaneous rent income	1,649,726	1,543,883
Income from non-transportation properties	1,921,301	1,535,998
Hotel income	1,629,836	1,669,533
Income from separately operated properties	595,590	608,438
Dividend income	361,666	404,163
Interest income	2,754,680	2,533,910
Miscellaneous income	3,318,771	735,449
Profit and loss—Net credit	236,232	243,034
Total other income	12,513,164	9,324,928
Deductions from Income		
Miscellaneous rents	682,501	689,886
Miscellaneous income charges	762,531	999,583
Total deductions from income	1,445,032	1,689,469
Net income available for fixed charges	57,859,942	43,792,817
Fixed Charges		
Rent for leased roads	476,054	480,663
Interest on bonds, debentures and equipment obligations	26,472,551	30,653,112
Interest on government loans	3,786,009	651,180
Interest on other debt	312,302	431,064
Amortization of discount on bonds	736,075	859,109
Total fixed charges	31,782,991	33,075,128
Surplus	$ 26,076,951	$ 10,717,689

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OPERATING REVENUES

	1956	1955 (Re-stated See Note 2)
FREIGHT SERVICES		
Freight	$612,767,267	$540,143,297
Switching	6,707,379	6,317,825
Cartage and transport	5,144,234	4,436,642
Demurrage	3,270,839	2,453,561
Water transfers	1,544,242	1,635,652
Grain elevator	1,175,561	843,637
Wharves	990,182	604,023
Storage	280,705	261,808
Total	631,880,409	556,696,445
PASSENGER SERVICES		
Passenger	45,843,419	44,236,584
Sleeping and parlor car	4,892,857	4,738,087
Dining and buffet car	4,021,755	3,895,150
Water transfers	556,391	464,426
Station, train and boat privileges	443,364	402,366
Restaurants	373,608	365,107
Baggage transportation and storage	250,689	238,209
Miscellaneous	15,731	19,312
Total	56,397,814	54,359,241
EXPRESS		
Express department	42,416,140	37,980,543
Railway Express Agency	853,426	926,913
Total	43,269,566	38,907,456
COMMUNICATIONS		
Communications department	19,869,753	18,475,493
Commissions—U S	11,781	14,889
Total	19,881,534	18,490,382
ALL OTHER		
Mail	9,357,361	8,652,959
Milk	457,515	451,710
Rents of buildings and other property	1,572,933	1,489,710
Joint facilities	814,643	838,481
Miscellaneous	11,168,872	9,383,404
Total	23,371,324	20,816,264
TOTAL OPERATING REVENUES	$ 774,800,647	$ 689,269,788

OPERATING EXPENSES

ROAD MAINTENANCE

	1956	1955 (Re-stated See Note 2)
SUPERINTENDENCE	$ 10,299,105	$ 9,511,623
TRACK AND ROADWAY		
Track and roadway maintenance	47,313,165	40,500,585
Ties	927,859	11,167,522
Rails	414,408	7,097,397
Other track material	3,402,029	7,454,504
Ballast	304,723	2,025,730
Fences, snowsheds and signs	1,576,574	1,289,923
Small tools and supplies	2,209,672	1,786,828
Removing snow, ice and sand	6,789,824	6,055,336
Total	62,938,254	77,377,825

ROAD MAINTENANCE—(*concluded*)

	1956	1955 (Re-stated See Note 2)
Bridges and Structures		
Tunnels, bridges and culverts	$ 5,746,631	$ 4,788,674
Station and office buildings	5,787,681	5,479,744
Roadway buildings	876,851	676,264
Water and fuel stations	1,268,245	1,189,159
Shops and enginehouses	3,703,635	3,268,876
Grain elevators	98,860	87,979
Wharves	425,243	329,974
Power plant systems	544,323	516,503
Other structures	39,161	22,478
Total	18,490,630	16,359,651
Communication and Signal Systems		
Communication systems	8,411,719	7,090,042
Signals	2,524,903	2,096,571
Total	10,936,622	9,186,613
Miscellaneous		
Roadway machines	2,952,102	2,341,907
Public improvements	764,143	752,876
Injuries to persons	955,900	1,012,886
Insurance	30,999	31,135
Stationery	191,202	166,377
Other expenses	206,837	86,053
Right-of-way expenses	125,540	81,266
Total	5,226,723	4,472,500
Depreciation and Retirements		
Road property depreciation	32,451,406	1,063,804
Road property retirements	174,039	7,165,680
Dismantling retired road property	533,101	989,663
Total	33,158,546	9,219,147
Joint Facilities		
Maintaining joint facilities—*Net Credit*	*670,472*	*379,443*
Total Road Maintenance	$ 140,379,408	$ 125,747,916

EQUIPMENT MAINTENANCE

	1956	1955 (Re-stated See Note 2)
Superintendence	$ 4,099,943	$ 3,583,863
Machinery		
Shop and power plant machinery	4,162,097	3,770,583
Equipment		
Steam locomotives	24,629,687	21,311,471
Diesel locomotives	15,747,591	10,575,788
Freight train cars	37,628,570	33,884,743
Passenger train cars	15,659,600	14,927,363
Vessels	1,467,658	1,380,895
Work equipment	4,053,418	3,618,535
Express equipment	849,659	674,619
Cartage and transport equipment	1,777,255	1,419,674
Other equipment	64,312	128,970
Total	101,877,750	87,922,058

EQUIPMENT MAINTENANCE—(*concluded*)

	1956	1955 (Re-stated See Note 2)
MISCELLANEOUS		
Injuries to persons	$ 814,437	$ 741,822
Insurance	244,334	216,259
Stationery	158,509	127,744
Other expenses	253,466	215,069
Total	1,470,746	1,300,894
DEPRECIATION AND RETIREMENTS		
Other equipment and machinery depreciation	1,529,783	657,277
Other equipment and machinery retirements	—	789,603
Dismantling retired machinery	22,571	15,070
Dismantling retired equipment	339,685	495,122
Rolling stock and vessels depreciation	29,026,517	32,276,634
Total	30,918,556	34,233,706
JOINT FACILITIES		
Maintaining joint facilities—*Net Credit*	*277,607*	*212,891*
TOTAL EQUIPMENT MAINTENANCE	$ 142,251,485	$ 130,598,213

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OPERATING EXPENSES

TRAFFIC

	1956	1955 (Re-stated See Note 2)
Superintendence	$ 4,700,299	$ 4,374,470
Agencies	5,203,813	4,790,773
Advertising	1,737,000	1,614,991
Associations	243,479	234,907
Stationery	792,420	766,010
Other expenses	21,238	9,600
Total	12,698,249	11,790,751
Colonization and agriculture	311,872	287,155
Industrial development	308,703	287,435
Development and natural resources	122,771	119,418
TOTAL TRAFFIC	$ 13,441,595	$ 12,484,759

TRANSPORTATION

	1956	1955
SUPERVISION		
Superintendence	$ 8,130,957	$ 7,564,332
Dispatching	4,429,898	3,961,858
Total	12,560,855	11,526,190
STATION SERVICES		
Station employees	46,777,585	42,723,353
Weighing, inspection and demurrage	213,736	188,592
Coal and ore wharves	185,451	171,831
Station expenses	3,725,697	3,284,181
Total	50,902,469	46,367,957
YARD SERVICES		
Yardmasters and clerks	11,249,526	10,245,616
Yard trainmen	22,227,499	19,180,854
Yard switchmen	1,889,092	1,798,789
Yard enginemen	15,172,770	13,753,158
Yard locomotive fuel and power	6,054,798	5,572,905
Yard locomotive water	148,423	164,850
Yard locomotive other supplies	364,038	313,553
Yard enginehouse expenses	3,625,292	3,360,662
Yard other expenses	487,469	394,997
Total	61,218,907	54,785,384

TRANSPORTATION—(*concluded*)

	1956	1955 (Re-stated See Note 2)
Train Operations		
Train enginemen	$ 29,304,392	$ 26,129,111
Train locomotive fuel and power	48,028,725	41,801,035
Train locomotive water	1,348,065	1,340,998
Train locomotive other supplies	1,753,618	1,640,987
Train enginehouse expenses	12,430,257	11,622,680
Trainmen	34,799,642	30,570,130
Train other expenses	22,688,088	19,741,069
Operating sleeping and parlor cars	5,468,426	4,583,468
Total	155,821,213	137,429,478
Miscellaneous		
Signal operation	921,731	931,405
Crossing protection	1,539,660	1,390,879
Drawbridge operation	356,349	925,266
Communication system operation	13,378,141	12,541,060
Operating vessels	10,024,922	7,931,699
Express department operation	27,272,879	24,997,320
Cartage and transport operation	2,668,132	2,250,283
Stationery	1,551,897	1,337,370
Other expenses	647,042	595,081
Total	58,360,753	52,900,633
Casualty Costs		
Insurance	43,556	44,072
Clearing wrecks	1,279,712	791,723
Damage to property	236,236	286,738
Loss and damage—freight	4,130,164	3,162,922
Loss and damage—baggage	19,746	8,513
Injuries to persons	2,377,199	2,008,768
Total	8,086,613	6,482,736
Joint Facilities		
Operating joint yards & terminals—*Net Credit*	*570,391*	*651,227*
Operating joint facilities—*Net Credit*	*253,173*	*212,887*
Total	*823,564*	*864,114*
Total Transportation	$346,127,246	$308,628,264

MISCELLANEOUS OPERATIONS

	1956	1955
Dining and buffet service	$ 5,611,809	$ 5,320,297
Restaurants	365,006	354,339
Grain elevators	343,790	284,523
Other operations	497,043	384,782
Operating joint miscellaneous facilities	383,502	410,997
Total Miscellaneous Operations	$ 7,201,150	$ 6,754,938

GENERAL

	1956	1955
General officers	$ 992,604	$ 866,684
Clerks and attendants	13,008,679	11,919,755
Office expenses	1,170,166	1,021,627
Law expenses	731,820	697,804
Pensions	36,392,000	35,347,084
Stationery	728,269	503,760
Valuation expenses—U.S. Lines	17,278	12,416
Other expenses	758,521	636,526
General joint facilities—Net Debit	103,341	103,138
Total General	$ 53,902,678	$ 51,108,794

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PROPERTY INVESTMENT STATEMENT

Property Investment at December 31, 1955			$2,757,290,868
Additions to record amounts not included in this account under previous accounting policies, as described in Note 1			173,302,045
			2,930,592,913
Capital Expenditures in 1956			
Roadway improvements	$ 50,580,814		
Large terminals	5,748,301		
Communications facilities	8,036,319		
Roadway buildings	3,397,021		
Yard tracks and sidings	4,030,830		
Roadway and shop machinery	4,526,736		
Signals	1,441,781		
Highway crossing protection	278,588		
Line diversions	160,707		
Other facilities	2,586,528		
	80,787,625		
Branch lines	9,839,947		
Hotels	6,471,228		
	97,098,800		
Equipment and vessels	106,201,270	$203,300,070	
Deduction in respect of property retirements in 1956		41,716,455	
		161,583,615	
Government of Canada expenditure on Canadian Government Railways		1,235,348	162,818,963
Property Investment at December 31, 1956			$3,093,411,876

RECORDED DEPRECIATION STATEMENT

Recorded Depreciation at December 31, 1955		$ 248,160,824
Additions to record amounts not included in this account under previous accounting policies, as described in Note 1		173,302,045
		421,462,869
Add—Provision for depreciation for the year		
Road Maintenance		
Road property depreciation	$ 32,451,406	
Equipment Maintenance		
Rolling stock and vessel depreciation	29,026,517	
Other equipment and machinery depreciation	1,529,783	
Other Physical Properties	843,366	63,851,072
		485,313,941
Deduct—Charges in respect of property retirements		24,190,938
Recorded Depreciation at December 31, 1956		$ 461,123,003

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LONG TERM DEBT

Rate %	Maturity (See Note)	Bonds, Debentures and Equipment Obligations	Currency in which payable	Outstanding at Dec. 31, 1955	Transactions Year 1956 Increase or *Decrease*	Outstanding at Dec. 31, 1956
4½	Feb. 1, 1956	Canadian National 25 Year Bonds	Can-US-Stlg.	$ 67,368,000	$ *67,368,000*	
4	Sept. 1, 1956	Pembroke Southern Bonds	Canadian	150,000	*150,000*	
2½	Mar. 1, 1957(a)	Newfoundland Railway Notes	U.S.	213,789	*142,206*	$ 71,583
4½	July 1, 1957	Canadian National 30 Year Bonds	Can-US	64,136,000		64,136,000
3½	July 20, 1958	Canadian Northern Debenture Stock	Canadian	5,315,545		5,315,545
			Sterling	310,961		320,961
5	Nov. 15, 1958	Indebtedness to Province of New Brunswick	Canadian	380,023		380,023
3	Jan. 15, 1959(b)	Canadian National 20 Year Bonds	Canadian	35,000,000		35,000,000
3½	May 4, 1960	Canadian Northern Alberta Debenture Stock	Sterling	550,727		550,727
3½	May 19, 1961	Canadian Northern Ontario Debenture Stock	Sterling	3,597,518		3,597,518
3	Jan. 1, 1962	Grand Trunk Pacific Bonds	Can-US-Stlg.	26,465,130		26,465,130
4	Jan. 1, 1962	Grand Trunk Pacific Bonds	Can-US-Stlg.	7,999,074		7,999,074
2¾	Feb. 1, 1963(c)	Canadian National 8 Year 1½ Month Bonds	Canadian	250,000,000		250,000,000
3	Jan. 3, 1966(d)	Canadian National 17 Year Bonds	Canadian	35,000,000		35,000,000
2¾	Jan. 2, 1967(e)	Canadian National 20 Year Bonds	Canadian	50,000,000		50,000,000
2⅞	Sept. 15, 1969(f)	Canadian National 20 Year Bonds	Canadian	70,000,000		70,000,000
2⅞	Jan. 16, 1971(g)	Canadian National 21 Year Bonds	Canadian	40,000,000		40,000,000
3¾	Feb. 1, 1974(h)	Canadian National 20 Year Bonds	Canadian	200,000,000		200,000,000
2¾	June 15, 1975(i)	Canadian National 25 Year Bonds	U.S.	6,000,000		6,000,000
4½	Jan. 1, 1980	Grand Trunk Western Bonds	Can-US-Stlg.	400,000		400,000
5	Perpetual	Debenture Stocks-Various	Sterling	98,706	*9,734*	88,972
4	Perpetual	Debenture Stocks-Various	Sterling	73,618	*64,639*	8,979
2	Dec. 1, 1957	Equipment Trust Certificates—Series "R"	Canadian	1,120,000	*560,000*	560,000
2⅛	Mar. 15, 1958	Equipment Trust Certificates—Series "S"	Canadian	8,400,000	*2,800,000*	5,600,000
2¼	Nov. 1, 1958	Equipment Trust Certificates—Series "T"	Canadian	6,450,000	*2,150,000*	4,300,000
2¼	Mar. 14, 1960	Equipment Trust Certificats—Series "U"	Canadian	9,900,000	*2,200,000*	7,700,000
2¾	Jan. 15, 1961	Equipment Trust Certificates—Series "V"	Canadian	7,425,000	*1,350,000*	6,075,000
		Total Bonds, Debentures and Equipment Obligations		896,364,091	*76,794,579*	819,569,512
		Government of Canada Loans and Debentures				
		Capital Revision Act, 1952				
	Jan. 1, 1972	Debenture	Canadian	100,000,000		100,000,000
		Canadian Government Railways				
		Advances for Working Capital, 1923	Canadian	16,771,981		16,771,981
		Financing and Guarantee Acts 1954-1956				
	Various	Loans for Capital Expenditures	Canadian	7,602,991	66,000,000	73,602,991
		Temporary Loans—T.C.A	Canadian	8,500,000	11,500,000	20,000,000
		Refunding Acts, 1951 and 1955				
	Various	Loans for Debt Redemption	Canadian	66,569,650	76,720,206	143,289,856
		Total Government of Canada Loans and Debentures		199,444,622	154,220,206	353,664,828
		Total Long Term Debt		$1,095,808,713	$ 77,425,627	$ 1,173,234,340

Note:—(a) Callable at par at any time.
(b) Callable at par on or after Jan 15, 1954.
(c) Callable at par on or after Feb. 1, 1961.
(d) Callable at par on or after Jan. 3, 1961.
(e) Callable at par on or after Jan. 2, 1964.
(f) Callable at par on or after Sept. 15, 1964.
(g) Callable at par on or after Jan. 16, 1966.
(h) Callable at par on or after Feb. 1, 1972.
(i) Callable on or before June 14, 1958 at 102; thereafter at varying redemption premiums.

SHAREHOLDERS' EQUITY

	Outstanding at Dec. 31, 1955	Transactions Year 1956 Increase or *Decrease*	Outstanding at Dec. 31, 1956
Government of Canada			
No par value capital stock of Canadian National Railway Company	$396,518,135		$ 396,518,135
4% Preferred stock of Canadian National Railways Company	815,470,209	$ 23,132,994	838,603,203
Capital investment in Canadian Government Railways	279,914,280	1,235,348	391,149,628
Total Government of Canada	1,591,902,624	24,368,342	1,616,270,966
Capital Stock of Subsidiary Companies Owned by Public	4,511,150	*2,480*	4,508,670
Total Shareholders' Equity	$1,596,413,774	$ 24,365,862	$1,620,779,636
Total Long Term Debt and Shareholders' Equity	$2,692,222,487	$101,791,489	$2,794,013,976

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COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM

Capital Stock Owned by Government of Canada

Company number		
1	Canadian National Railway Company (Common)	$ 396,518,135
	Canadian National Railway Company (Preferred)	838,603,203
		$1,235,121,338

Capital Stocks Owned by System or Public

	Name of Issuing Company	Controlled by company number	Capital stock issued	Owned by public
1	Canadian National Railway Company	see above		
2	Atlantic and St. Lawrence Railroad Company	1	$ 6,302,340	$ 5,840
3	Canadian National Express Company	1	1,000,000	
4	Canadian National Hotels, Limited	1	28,794,725	
5	Canadian National Railways (France)	1	1,886,114	
6	The Canadian National Railways Securities Trust	1	5 million shares	
7	Canadian National Realties, Limited	1	40,000	
8	Canadian National Rolling Stock Limited	1	50,000	
9	Canadian National Steamship Company, Limited.	1	15,000	
10	Canadian National Telegraph Company	1	525,900	
11	Canadian National Transfer Company	1	500,000	
12	Canadian National Transportation, Limited	1	500	
13	The Canadian Northern Quebec Railway Company	1	9,550,000	3,849,200
14	The Central Counties Railway Company	1	500,000	12,000
15	The Champlain and St. Lawrence Railroad Company	1	50,000	
16	The Dalhousie Navigation Company, Limited	1	50,000	
17	The Great North Western Telegraph Company of Canada	1	373,625	6,825
18	The Lake Superior Terminals Company Limited.	1	500,000	
19	The Minnesota and Manitoba Railroad Company	1	400,000	
20	The Minnesota and Ontario Bridge Company	1	100,000	
21	Montreal and Southern Counties Railway Company	1	500,000	140,600
22	Montreal Fruit & Produce Terminal Company, Limited	1	500	
23	The Montreal Stock Yards Company	1	350,000	
24	The Montreal Warehousing Company	1	236,000	4,620
25	Mount Royal Tunnel and Terminal Company, Limited	1	5,000,000	
26	National Terminals of Canada, Limited	1	2,500	
27	The Niagara, St. Catharines and Toronto Railway Company	1	925,000	
28	The Oshawa Railway Company	1	40,000	
29	Prince George, Limited	1	10,000	
30	Prince Rupert, Limited	1	10,000	
31	The Quebec and Lake St. John Railway Company	1	4,508,300	489,160
32	St. Clair Tunnel Company	1	700,000	
33	The Thousand Islands Railway Company	1	60,000	
34	The United States and Canada Rail Road Company	1	219,400	425
35	Vermont and Province Line Railroad Company	1	200,000	
36	Central Vermont Railway, Inc	1	10,000,000	
37	The Centmont Corporation	36	176,400	
38	Central Vermont Transportation Company	36	200,000	
39	Duluth, Winnipeg and Pacific Railway Company	1	3,100,000	
40	Duluth, Rainy Lake & Winnipeg Railway Company	39	2,000,000	
41	Duluth, Winnipeg and Pacific Railroad Company	39	100,000	
42	Grand Trunk Western Railroad Company (Common)	1	20,000,000	
42	Grand Trunk Western Railroad Company (Preferred)	1	25,000,000	
43	Consolidated Land Corporation	42	64,000	
44	Grand Trunk-Milwaukee Car Ferry Company	42	200,000	
45	Industrial Land Company	42	1,000	
				$4,508,670

In addition to the shares of the Canadian National Railway Company the Government of Canada has also invested $381,149,628 in Canadian Government Railways. The Canadian Government Railways property is entrusted to the Canadian National Railway Company as part of the System.

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INVESTMENTS IN AFFILIATED COMPANIES NOT CONSOLIDATED

Company	Percentage of Investment Held	Investment at Dec 31, 1955	Transactions Year 1956 Increase	Investment at Dec 31, 1956
Stocks				
The Belt Railway Company of Chicago......	7.69	$ 240,000		$ 240,000
Chicago & Western Indiana Railroad Company..................	20	1,000,000		1,000,000
The Detroit & Toledo Shore Line Railroad Company..................	50	1,500,000		1,500,000
Detroit Terminal Railroad Company.......	50	1,000,000		1,000,000
Northern Alberta Railways Company......	50	6,375,000	$ 100,000	6,475,000
The Public Markets, Limited................	50	575,000		575,000
Railway Express Agency, Inc................	0.6	600		600
The Shawinigan Falls Terminal Railway Company..................	50	62,500		62,500
The Toledo Terminal Railroad Company..	9.68	387,200		387,200
The Toronto Terminals Railway Company.	50	250,000		250,000
Trans-Canada Air Lines....................	100	5,000,000		5,000,000
Vancouver Hotel Company Limited..........	50	75,000		75,000
Total Stocks..................		$ 16,465,300	$ 100,000	$ 16,565,300
Bonds				
Northern Alberta Railways Co. 1st Mortgage Bonds..................	50	$ 12,567,500	$ 300,000	$ 12,867,500
The Toronto Terminals Railway Co 1st Mortgage Bonds..................	50	12,455,000		12,455,000
Trans-Canada Air Lines Debenture...........	100	20,000,000		20,000,000
Total Bonds..................		$ 45,022,500	$ 300,000	$ 45,322,500
Advances				
The Belt Railway Company of Chicago..................		$ 40,679	$ 8,292	$ 48,971
Chicago & Western Indiana Railroad Company............		4,617,588	327,435	4,945,023
Railway Express Agency, Inc..................		173,493		173,493
Trans-Canada Air Lines..................		13,500,000	6,500,000	20,000,000
Total Advances..................		$ 18,331,760	$ 6,835,727	$ 25,167,487
Total..................		$ 79,819,560	$ 7,235,727	$ 87,055,287

SOURCE AND APPLICATION OF FUNDS FOR THE YEAR 1956

Source of Funds		
Surplus for the year..................		$ 26,076,951
Increase in Recorded Depreciation		
Provision for depreciation..................	$ 63,851,072	
Less—Reduction in respect of retirements..................	24,190,938	39,660,134
Long Term Debt		
Increase in Government of Canada loans..................	154,220,206	
Less—Decrease in bonds, debentures and equipment obligations.....	76,794,579	77,425,627
Shareholder's Equity—Government of Canada		
Issue of 4% Preferred stock of Canadian National Railways.........	23,132,994	
Additional capital invested in Canadian Government Railways.....	1,235,348	24,368,342
Reduction in working capital..................		24,840,542
Other..................		3,024,318
		$195,395,914
Application of Funds		
Dividend payable to Government of Canada..................		$ 26,076,951
Property Investment		
Additions..................	203,300,070	
Less—Retirements..................	41,716,455	
	161,583,615	
Government of Canada expenditure on Canadian Government Railways..................	1,235,348	162,818,963
Advances to Trans-Canada Air Lines..................		6,500,000
		$195,395,914

EQUIPMENT PLACED IN SERVICE DURING 1956

Diesel-Electric Locomotives

3	400 HP road-switching
6	875 HP road-switching
14	1000 HP road-switching
98	1200 HP road-switching
22	1600 HP road-switching
83	1750 HP road-switching
15	1800 HP road-switching
5	1750 HP road-switching passenger
8	900 HP switching
59	1000 HP switching
11	1200 HP switching
324	

Passenger Equipment

1	unit car—diesel railiner
7	steam-generator cars
8	

Freight Equipment

25	50-ton automobile transporter cars
3,628	50-ton box cars
100	50-ton flat cars
406	70-ton covered hopper cars
300	70-ton gondola cars
201	50-ton refrigerator cars
25	30-ton refrigerator cars
4,685	

Work Equipment

1	diesel locomotive crane—30-ton
1	diesel wrecking crane—250-ton
1	diesel wrecking crane—60-ton
1	Burro crane—12-ton
8	Jordan spreaders
1	snow plow
1	scale test car
1	30-cu. yd. 50-ton air dump car
16	miscellaneous units built from salvage in railway shops
1	work car—second hand
32	

INVENTORY OF RAILWAY EQUIPMENT

	On hand Jan. 1, 1956	Placed in service	Retired	Converted: Added	Converted: Retired	On hand Dec. 31, 1956	*Orders outstanding Dec. 31, 1956*
Locomotives							
Steam—Road	1,522		142			1,380	
Steam—Switching	373		48			325	
Electric	33					33	
Diesel-Electric—							
Road—Freight	175		2			173	
Road—Passenger	52					52	36
Road—Switching	242	241				483	218
Road—Switching passenger	8	5				13	21
Switching	306	78				384	47
Total	2,711	324	192			2,843	322
Freight Equipment							
Box cars	77,200	3,653	1,260		493	79,100	4,265
Flat cars	6,291	100	59		30	6,302	250
Stock cars	2,876		80			2,796	
Hopper cars	6,124	406	201			6,329	244
Gondola cars	11,766	300	164		3	11,899	200
Ore cars	1,388		17		2	1,369	400
Ballast cars	2,190		13			2,177	450
Tank cars	25					25	
Refrigerator cars	4,855	226	13		21	5,047	200
Caboose cars	1,784		53	71		1,802	10
Other cars in freight service				1		1	
Total	114,499	4,685	1,860	72	549	116,847	6,019
Passenger Equipment							
Coach cars	1,118		84		2	1,032	2
Combination cars	233		5	16		244	
Dining cars	104				1	103	6
Colonist cars	99		4		22	73	
Parlor cars	77					77	
Cafe cars	19					19	
Sleeping cars	460				4	456	
Tourist cars	37				2	35	
Baggage and express cars	1,370		23	1		1,348	72
Postal cars	57					57	
Unit cars	47	1	5		2	41	9
Other cars in passenger service	80	7	6		1	80	
Total	3,701	8	127	17	34	3,565	89

INVENTORY OF RAILWAY EQUIPMENT—(*concluded*)

	On hand Jan. 1, 1956	Placed in service	Retired	Converted Added	Converted Retired	On hand Dec. 31, 1956	*Orders outstanding Dec. 31, 1956*
WORK EQUIPMENT							
Units in work service	9,161	32	320	494		9,367	139
FLOATING EQUIPMENT							
Car ferries	8					8	
Barges	6					6	
Steamers	13	2				15	
Tugs	5					5	
Work	2					2	
Total	34	2				36	

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STATISTICS OF RAIL-LINE OPERATIONS

	1956	1955
TRAIN-MILES		
Freight service	47,944,638	43,128,824
Passenger service	24,268,051	23,559,606
Work service	2,377,562	2,036,573
Total train-miles	74,590,251	68,725,003
LOCOMOTIVE-MILES		
Freight service	50,322,972	45,212,159
Passenger service	23,632,672	23,418,612
Train switching—Freight	3,722,022	3,569,167
—Passenger	120,059	114,310
Yard switching—Freight	18,979,856	17,234,617
—Passenger	1,805,446	1,791,016
Work service	2,463,917	2,081,240
Total locomotive-miles	101,046,924	93,421,121
CAR-MILES		
Freight Service:		
Loaded freight cars	1,417,709,588	1,267,764,373
Empty freight cars	711,181,806	623,226,168
Passenger coach and combination cars	5,206,310	5,315,029
Other cars	10,436,049	11,003,436
Caboose cars	48,270,164	43,340,952
	2,192,803,917	1,950,649,958
Passenger Service:		
Loaded freight cars	879,553	662,094
Empty freight cars	54,245	105,029
Passenger coach and combination cars	54,977,530	52,947,710
Sleeping, parlor and observation cars	57,654,261	57,100,362
Dining cars	9,090,836	9,010,964
Motor unit cars	1,916,297	1,264,116
Other cars (baggage and express cars, etc.)	92,501,172	87,441,875
	217,073,894	208,532,150
Work service	4,810,716	4,058,029
Total car-miles	2,414,688,527	2,163,240,137
AVERAGE MILEAGE OF ROAD OPERATED	24,270.56	24,231.19
FREIGHT TRAFFIC		
Tons carried—Revenue freight	99,033,731	87,606,859
Ton-miles—Revenue freight	41,935,388,811	35,677,183,245
Revenue per ton	$ 6.18746	$ 6.15281
Revenue per ton-mile	$ 0.01461	$ 0.01511
Average haul	423.45	407.24
Ton-miles—Revenue freight per mile of road	1,721,343	1,466,853
Ton-miles—All freight per mile of road	1,823,510	1,544,752
Gross ton-miles of cars, contents and cabooses	95,956,149,254	83,490,960,359
Net ton-miles of freight (revenue and non-revenue)	44,257,605,305	37,431,169,271
Train-hours in freight road service	2,731,939	2,458,225
Gross ton-miles per freight train hour	34,742	33,597
Average speed of freight trains (miles per hour)	17.5	17.5
Average gross load—Freight trains (tons)	1,980	1,915
Steam locomotive miles per serviceable day (excluding stored)	122	115
Diesel unit miles per serviceable day (excluding stored)	251	269

STATISTICS OF RAIL-LINE OPERATIONS—(*concluded*)

Passenger Traffic	1956	1955
Passengers carried	15,989,368	16,811,280
Passenger-miles	1,500,929,719	1,463,653,329
Revenue per passenger	$ 2.86712	$ 2.61313
Average passenger journey (miles)	93.87	87.06
Revenue per passenger mile	$ 0.03054	$ 0.03001
Passenger-miles per mile of road	61,842	60,404
Percent on time arrival principal passenger trains	64.3	68.5
Steam locomotive miles per serviceable day (excluding stored)	200	194
Diesel unit miles per serviceable day (excluding stored)	538	535
Net Railway Operating Income		
Gross revenue per mile of road	$ 31,923	$ 28,190
Gross railway operating charges per mile of road	$ 29,995	$ 26,675
Net railway operating income per mile of road	$ 1,928	$ 1,515

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REVENUE TONNAGE BY COMMODITIES

	Year 1956 Tons	Increase or *Decrease* %
Agricultural Products		
Wheat	7,773,351	52.97
Corn	517,605	.81
Oats	924,710	9.18
Barley	1,710,745	18.08
Rye	158,957	52.76
Flaxseed	257,973	14.74
Grain, N.O.S	121,697	*12.87*
Flour, wheat	638,721	*26.47*
Cereal food preparations	296,308	*.33*
Mill products, N.O.S	2,854,302	33.96
Hay and straw	58,860	18.37
Cotton: raw, linters, noils and regins	85,233	*6.87*
Apples, fresh and fresh frozen	47,972	*12.01*
Citrus fruits	157,997	5.06
Fruits, fresh or fresh frozen, N.O.S	201,242	.87
Potatoes	423,272	12.45
Vegetables, fresh or fresh frozen, N.O.S	288,394	.77
Sugar beets	127,001	*11.16*
Agricultural products, N.O.S	1,008,994	29.81
Total Agricultural Products	17,653,433	28.07
Animals and Animal Products		
Cattle and calves	191,731	8.65
Hogs	117,184	*3.37*
Animals, N.O.S. and live poultry	26,546	*19.78*
Dressed meats, fresh, frozen, or cured, also dressed poultry	166,433	*10.73*
Packing house products (edible) N.O.S	96,080	*10.05*
Butter, cheese and eggs	62,972	*.77*
Wool	19,583	4.52
Hides	70,008	17,32
Fish	72,484	.33
Animal products N.O.S	136,190	3.69
Total Animals and Animal Products	959,211	*1.07*
Mine Products		
Anthracite coal	1,586,250	.41
Bituminous coal	11,516,969	15.57
Coke	924,753	4.79
Iron ore and concentrates	4,675,824	67.71
Copper ore and concentrates	293,267	*5.72*
Copper-nickel (nickel) ore and concentrates	1,124,035	93.16
Bauxite (aluminum) ore and concentrates	553,060	16.09
Ores and concentrates	2,132,341	*15.74*
Common sand and gravel	3,285,291	*11.72*
Stone and rock (broken, crushed, ground or riprap)	3,122,017	22.04
Block stone (finished or rough)	65,075	*4.30*
Asbestos, not further processed than milled	429,751	*.08*
Gypsum, crude	1,512,381	24.02
Petroleum, crude	681,027	14.64
Asphalt	381,579	*10.65*
Salt	671,122	9.67
Mine products, N.O.S	5,053,415	12.14
Total Mine Products	38,008,157	14.30

Abbreviation—N.O.S.: not otherwise specified.

REVENUE TONNAGE BY COMMODITIES—(*concluded*)

	Year 1956 Tons	Increase or *Decrease* %
FOREST PRODUCTS		
Logs, piling, poles, posts and ties	979,099	2.82
Cordwood and fuelwood	58,533	*9.67*
Pulpwood	5,282,416	21.47
Lumber, timber, lath, shingles; box, crate or cooperage stock	4,678,522	*3.65*
Plywood, veneers and built-up wood	387,514	13.86
Forest products, N.O.S.	247,222	19.72
Total Forest Products	11,633,306	8.03
MANUFACTURES AND MISCELLANEOUS		
Gasoline	2,455,583	4.19
Fuel oil (incl. bunker and diesel oil)	1,931,991	13.98
Petroleum and coal products, N.O.S.	824,790	10.21
Rubber: natural or synthetic	112,498	*3.96*
Iron and steel: bloom, ingot or pig	745,231	18.20
Iron and steel: bar, pipe, sheet or structural	1,747,691	35.26
Iron and steel: castings and forgings	42,662	63.26
Rails and fastenings	91,747	107.65
Scrap and waste metal	1,422,999	11.81
Aluminum: bar, ingot, etc.	402,495	11.40
Matte	181,926	8.41
Copper: bar, ingot, etc.	322,450	12.39
Nickel: bar, ingot, etc.	36,387	41.27
Metals and alloys, N.O.S.	179,767	4.84
Agricultural implements, farm tractors and parts	148,345	*9.80*
Automobiles and parts: freight or passenger	2,121,410	*16.79*
Machines, machinery and parts N.O.S. (Excl. business and home)	421,829	29.68
Fertilizers, N.O.S.	912,412	3.74
Chemicals and acids, N.O.S.	1,160,153	5.82
Cement	1,542,790	16.50
Brick, building tile and artificial stone	425,608	17.34
Lime and plaster	480,589	*2.85*
Sewer pipe and drain tile (not metal)	65,394	18.08
Woodpulp	1,669,927	8.17
Newsprint paper	2,470,492	8.04
Printing and wrapping paper	437,265	23.13
Paper and paper articles, N.O.S. (Excl. building, roofing or scrap paper)	203,518	8.52
Paperboard, pulpboard and wallboard	935,416	3.51
Building paper, prepared roofing and insulating materials, N.O.S.	234,988	17.89
Furniture and parts: home, office or store	62,190	*10.92*
Sugar	251,629	*1.78*
Beverages	399,405	.98
Food products, N.O.S. in containers	772,398	10.58
Sulphur: natural or synthetic	107,250	*7.38*
Glass, glassware and earthenware	110,833	*1.53*
Scrap and waste paper and rags	271,618	7.15
Manufactures and miscellaneous, N.O.S.	3,797,787	2.87
Total Manufactures and Miscellaneous	29,501,463	7.21
All less than carload freight	1,278,161	*2.72*
Grand Total	99,033,731	13.04

OPERATED MILEAGE AT DECEMBER 31, 1956

	Owned	Leased	Trackage Rights	Total
First main track in Canada	22,168	190	194	22,552
First main track in United States	1,446	182	123	1,751
Total first main track	23,614	372	317	24,303
Other main track	1,198	9	83	1,290
Spurs, sidings and yard tracks	6,663	124	1,535	8,322
Total all tracks	31,475	505	1,935	33,915

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A 25-YEAR SYNOPTICAL HISTORY OF THE CANADIAN NATIONAL RAILWAYS

Year	Operating Revenues	Operating Expenses	Net Operating Revenue	Taxes Rents and Other Income	Available for Fixed Charges and Dividends	Fixed Charges	Surplus or *Deficit*	Freight Revenue Ton Miles	Freight Revenue per Ton Mile	Revenue Passenger Miles	Revenue per Passenger Mile	Average Number of Employees	Average Hourly Earnings per Employee
	(Thousands)	(Thousands)	(Thousands)	(Thousands)	(Thousands)	(Thousands)	(Thousands)	(Millions)	c	(Millions)	c		$
1932	$161,104	$155,208	$ 5,896	$ *7,047*	$ *1,151*	$ 59,690	$ *60,841*	12,818	.942	686	2.515	80,287	.608
1933	148,520	142,813	5,707	*5,755*	*48*	58,907	*58,955*	11,550	.972	665	2.261	74,107	.583
1934	164,902	151,936	12,966	*3,152*	9,814	58,222	*48,408*	12,950	.974	723	2.259	78,532	.563
1935	173,184	158,926	14,258	*4,787*	9,471	56,893	*47,422*	13,509	.990	770	2.162	79,044	.590
1936	186,611	171,478	15,133	*6,264*	8,869	52,172	*43,303*	14,814	.982	831	2.048	83,506	.590
1937	198,397	180,789	17,608	*6,684*	10,924	53,270	*42,346*	15,165	1.014	953	1.987	84,363	.613
1938	182,242	176,175	6,067	*6,929*	*862*	53,452	*54,314*	14,505	.964	892	2.030	79,940	.653
1939	203,820	182,966	20,854	*7,461*	13,393	53,488	*40,095*	17,984	.938	875	2.035	81,672	.652
1940	247,527	202,520	45,007	*8,667*	36,340	53,305	*16,965*	21,532	.904	1,125	1.929	86,366	.650
1941	304,377	237,769	66,608	*9,430*	57,178	53,162	4,016	27,200	.881	1,762	1.810	95,362	.682
1942	375,655	288,999	86,656	*9,923*	76,733	51,670	25,063	31,729	.909	2,708	1.784	100,651	.730
1943	440,616	324,476	116,140	*28,311*	87,829	52,190	35,639	36,327	.894	3,619	1.848	106,893	.763
1944	441,147	362,547	78,600	*5,099*	73,501	50,474	23,027	36,016	.893	3,697	1.888	108,278	.827
1945	433,773	355,294	78,479	*4,713*	73,766	49,010	24,756	34,600	.915	3,338	1.953	110,591	.832
1946	400,586	357,237	43,349	*5,626*	37,723	46,685	*8,962*	30,812	.975	2,289	2.190	109,809	.898
1947	438,198	397,123	41,075	*11,034*	30,041	45,926	*15,885*	32,945	1.040	1,845	2.332	112,801	.927
1948	491,270	464,740	26,530	*13,721*	12,809	46,342	*33,533*	32,943	1.195	1,755	2.368	115,395	1.064
1949	500,723	478,501	22,222	*15,633*	6,589	48,632	*42,043*	30,922	1.276	1,621	2.671	116,057	1.104
1950	553,831	493,997	59,834	*15,673*	44,161	47,422	*3,261*	31,988	1.394	1,408	2.834	116,347	1.133
1951	624,834	580,150	44,684	*11,539*	33,145	48,177	*15,032*	36,435	1.369	1,611	2.947	124,608	1.294
1952	675,219	634,853	40,366	*14,809*	25,557	25,415	142	38,430	1.397	1,635	2.964	131,297	1.425
1953	696,622	659,049	37,573	*7,953*	29,620	29,376	244	36,678	1.509	1,539	2.984	130,109	1.525
1954	640,637	626,465	14,172	*10,403*	3,769	32,527	*28,758*	32,882	1.529	1,472	2.973	122,237	1.550
1955	683,089	629,013	54,076	*10,354*	43,722	33,004	10,718	35,677	1.511	1,464	3.001	119,430	1.560
1956	774,801	703,304	71,497	*13,637*	57,860	31,783	26,077	41,935	1.461	1,501	3.054	126,639	1.645

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Mr. GORDON: Now, Mr. Chairman, I have included the financial and statistical statements. I do not think I should make two comments about the two major changes which appear on the balance sheet. A substantial adjustment was made to the property account and the depreciation reserves in consequence of the adoption on January the 1st, 1956, of the new uniform accounting classification. This adjustment is described in the "Notes to Consolidated Statements" on page 28 where you will find a special reference is made thereto.

The second statement I should like to make is that those who are comparing this balance sheet with last year will find that previously we carried a pension trust fund in the balance sheet and last year it appeared in the round figure of $128 million. For all practical purposes, however, this was a trust although it did not have this legal status. During 1956 we decided that it would be more realistic to accord this fund the full legal status of an irrevocable trust and we did so. This action, which is described in note 5 to the consolidated financial statements, also has the effect of removing this fund from the system balance sheet.

The other statements I think are self-explanatory, if you would leaf through them, and we will come to them later, if you wish. I would call particular attention to page 30. We followed a suggestion of Mr. Fulton's last year that we should group the individual revenue items by types of service, for example, sleeping and parlor car revenue as allied to passenger service. We thought that would give a much better picture and we adopted that suggestion—I think the results you will find are quite satisfactory. I do not think there are any other details which I need to mention at this point—I think they are all self-explanatory, and with your permission, Mr. Chairman, I should like to ask the committee to accept them for insertion in the minutes in the usual way.

The CHAIRMAN: Thank you Mr. Gordon.

The tables have been included in the report on Canadian National Railways for the year ended December 31, 1956.

Probably we should go back then to the earlier part of the report—that is page 5 of the report, the preliminary statement as to the financial operations of the company.

Are there any questions on page 5, which is the first page of the annual report?

Mr. HAMILTON (*York West*): Mr. Chairman, may I ask a question with respect to page 4?

The CHAIRMAN: Yes, Mr. Hamilton.

Mr. HAMILTON (*York West*): What is the occupation of Mr. Griffith, the new director?

Mr. GORDON: Mr. James Raymond Griffith who was appointed December 19, 1956, was general chairman of the Brotherhood of Railway Carmen of America. He resigned that position and he can now be classified as retired.

Mr. HAMILTON (*York West*): He therefore fills a directorship which might be considered as being a labour representative?

Mr. GORDON: Representation of labour, yes—the appointment of course was made by order in council on the recommendation of the Minister of Transport.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Mr. Chairman, has Mr. Gordon any comparative figure, say on the revenue of the C.P.R. or the railways in class (I) in the United States, against ours, for the current year under discussion. Perhaps a more actual figure would be the rate percentage increase or decrease.

Mr. GORDON: Of course with respect to a detailed answer to that question, it perhaps opens up a large field of inquiry—if you had in mind just the results of 1956 as a comparison—

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Yes, probably the increase in revenue, perhaps freight and passenger and the change in the non-operating results.

Mr. GORDON: The table which I have before me shows that the total operating revenues of the Canadian National Railways increased 12.4 per cent during the year—Canadian Pacific shows an increase of 12.7 per cent and the group of American railways, usually referred to as class (I) railways showed an increase of 4.4 per cent. I cannot give you these figures in dollars but I have these percentage figures which I think give a better picture.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Yes, they are more interesting, have you also got the net operating position?

Mr. GORDON: Yes—the total operating expenses on the same bases show that the Canadian National total operating expenses increased by 10.7 per cent, the Canadian Pacific increased by 12 per cent and the class (I) railways in the United States increased by 6.1 per cent.

Mr. HAHN: Mr. Gordon, speaking of class (I) American railways—is that in ratio of volume as to freight or passenger service?

Mr. GORDON: I am sorry I missed the first few words, Mr. Hahn.

Mr. HAHN: Speaking of class (I) United States railways, do you compare them particularly with our own in respect to freight carriage or is it the type of cars and so on that they use—I am not quite clear on that point.

Mr. GORDON: The group of United States railways called class (I) are those which have traffic in excess of $1 million per year—that is to say, those who have a revenue of more than $1 million per year—that is a very comprehensive group actually.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Mr. Chairman, from these figures it would appear that the C.N.R. has done a comparatively better job this year in keeping its expenditure down in relation to demands made upon it—that is in comparison with the other two.

Mr. GORDON: Well, I would like to say this, the Canadian National Railways are peculiarly susceptible to a sharp improvement in results in terms of volume—when we get over a certain specific volume, then we see a very rapid increase, and by the same token, if we don't get that volume our decline is much more sharp. So that when we are able to use our plant much nearer to capacity, we will always show a relatively better result. Mr. Armstrong reminds me that there is a technical aspect involved here in "user depreciation"—because on the C.P.R., their depreciation change is based on user depreciation and this adds to their operating expenses as traffic goes up. In other words they write up an increase in depreciation in terms of volume—we don't do that. We do it on a straight line basis.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Is it the same system in class (I) in the United States?

Mr. GORDON: They are all straight line in the United States.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): It does seem to me, Mr. Chairman, from this picture that C.N.R. had done a good job in the course of the year and that it might, at least, have been nice to be able to mention that, to point it out and emphasize it.

Mr. GORDON: My innate modesty would not allow me to admit that—I should certainly say though, on behalf of the organization, that it could be held that this has been a good year and I think it could be fairly said also, that the economic procedures that we have put in force over the last four or five years are beginning to show results. We have been spending money on projects which show a good return on the capital invested, and we are beginning to see direct results in that respect.

Mr. HAMILTON (*York West*): Do you know what the Canadian Pacific Railway percentage figure would be if they used a straight line depreciation formula?

Mr. GORDON: We cannot do that in the term of this year because their annual report is not yet out; they have released only the details of their operating figures but we have not received their statistical information. Have they had their shareholders' meeting yet? No. The Canadian Pacific has not yet had its annual shareholders' meeting, but it is due very shortly. After that they will release their report and then we will have an opportunity to make the comparisons you mention.

Mr. HAMILTON (*York West*): Is there any particular reason why there is such a vast difference between the United States figures and ours, both in revenue and also in expenses? Perhaps I might load my question a bit for you by saying: is it possible that they are more closely attuned to business there or, let us say, that they have provision for increasing the rates, it may be, closer to the actual rise in expenses?

Mr. GORDON: No. I think you are getting off on a tangent. I think the explanation is that it ties into a large field under discussion in the country today and that is that relatively Canada so far has had a much bigger expansion —economic expansion—than the United States.

In Canada we have been doing more and trying to do more, and the result of that is reflected in railway figures. We are carrying more traffic relative to general economic conditions in Canada as compared with the United States. It is just one of the many points of analysis which crop up when comparing the United States economy with the Canadian economy. We are growing and our growth, relatively, is greater.

Mr. CARTER: Because of your deficit in previous years, you do not have to pay income tax this year. If you had paid income tax this year, by how much would your surplus have been reduced?

Mr. GORDON: It would be about a 47 per cent reduction.

Mr. CARTER: A reduction of about $11 million or $12 million?

Mr. GORDON: Yes. But mind you, I would point out that that is not unique for the Canadian National Railways. It is the same income tax for any industry and for any company which had a loss situation, and you can carry it forward or back as the case may be.

Mr. CARTER: Then why bother to figure out the income tax when your surplus goes to the federal treasury?

Mr. GORDON: Because we like to present this as a normal business report and to show the Canadian public exactly what happens to the Canadian National Railway, and that it is operated as a regular business enterprise. We are taxable under the law, now, in exactly the same way as any company, but a few years ago we were not. We are taxable in exactly the same way now and I mention this particularly because making the Canadian National Railway subject to income tax was concurrent with the capital revision which was brought about some five years ago.

Mr. CARTER: From the point of view of the maritimes where they find the freight rates a bit heavy, the opinion with respect to this $26 million surplus which you have had is that it is really a little different from a similar surplus in another company.

Mr. GORDON: You should remember when we talk about a $26 million surplus that it is out of that surplus that we pay dividends. During the year we have sold preferred stock to the government and we should be paying four per cent on that stock. An ordinary company which had to raise money in the market would be very lucky if they could sell equity stock at only four per cent. But even if the preferred stock is only required to carry four per cent, last year we only paid 3.1 per cent for the preferred stock money which the government has put up.

Mr. CARTER: I was thinking that that surplus might be used as an argument that the freight rates were not justified—I mean the increase in them.

Mr. GORDON: No, I could not agree with that. I would make the argument quite in reverse without any trouble at all. If I had a reasonable man or a reasonable group, I could demonstrate that the freight rates were too low, and I emphasize the word "reasonable".

Mr. HAMILTON (*York West*): Surely you are not inferring that we are not very reasonable people here.

Mr. CARTER: Surely there are a great many reasonable people in the maritimes!

Mr. HAMILTON (*York West*): Do you actually pay over that 3.1 per cent interest on those shares to the government?

Mr. GORDON: Yes. We pay it over to the government as a dividend.

Mr. KNIGHT: In the case of a company having had a profit, should you not be able to retain it for future use?

Mr. GORDON: No. An ordinary company would not declare a dividend until it had the money to pay it. It all depends on the character of the financing. If an ordinary company had sold preferred stock bearing dividends at four per cent, they would certainly pay it if they could. If a company passes its dividend, it is a serious matter to the shareholders.

Mr. KNIGHT: Would it not be preferable to retain it for future use instead of paying it to the government and then having to come back a year later to pick up some more?

Mr. GORDON: There could be an argument for it but the statute does not permit it. I could certainly listen to a suggestion that the earnings be retained for the purpose of paying off a debt. But having said that, I must say that we have been getting from the government a subscription each year of preferred stock, which is by statute, required in the amount of three per cent of our gross revenue. So automatically the government takes up each year from the railway an amount of preferred stock. And then at the end of the year our surplus, when figured out, is a dividend actually paid on the amount of preferred stock outstanding. In 1954, nothing was paid. In 1953 the dividend we paid was very small. You would need a microscope to see it. This year it is better; it is 3.1 per cent.

As I have pointed out in the report, over the average of a five year period—and the reason why I appended that five year period was that during the recapitalization discussion I stated that if the good years were taken with the bad then I felt that recapitalization would enable the Canadian National Railways to stand on its own feet. We have done so to the tune of an average revenue of $1.7 million which produces a small dividend, but not anything that could be regarded as a normal dividend.

Mr. KNIGHT: I am looking towards a situation where the railway might become self sufficient and might operate within its own established finances.

Mr. GORDON: So am I!

Mr. KNIGHT: Well, if this program is followed, we will never get to that point.

Mr. GORDON: I must remind you that when you talk about the railway standing on its own feet, the test must surely be that a railway in raising money for capital investment should be able to pay the going market price of that money.

In terms of the borrowings we had with bonds, we have the benefit of a government guarantee on our bonds, but we pay the full market rate of interest on those guaranteed bonds so that is reasonable and fair. I would say that we can sell our bonds because we have that government guarantee, but I doubt if we could raise the money at all relying upon our earning record. When you get to equity stock, the test of the success of the Canadian National Railway must be that it should be able to make sufficient earnings to pay the market dividend that another company would have to pay if it were raising equity money in the market. But we are not in that position and I cannot see it, as far ahead as I am looking at the moment.

Mr. HAHN: That is relative to the number of preferred shares which you have sold to the government. Is the sole value of the Canadian National Railway sold to it on a preferred share basis, or just how does it work?

Mr. GORDON: The balance sheet would give you a picture of it. When we get to our capital budget I can deal with it more intelligently with the figures before me.

Mr. HAHN: Perhaps we might leave it until then.

Mr. GORDON: Yes, I will answer it during the actual budget discussion.

Mr. HAHN: I have a question on section 2.

The CHAIRMAN: We are on paragraphs 1 to 3 on page 5.

Mr. HAHN: In paragraph 2 we find the deficit we had in 1954 was $28.8 million. Now we show a profit of $26.1 million.

Mr. GORDON: Yes.

Mr. HAHN: There must be a point where we can show a profit. You indicated earlier that the profits will begin to spiral once we reach that point of efficiency.

Mr. GORDON: Yes.

Mr. HAHN: At what point may we visualize that?

Mr. GORDON: It is a difficult point to establish. I do not know. It is a measure of the productivity of the railway. I do not know what 100 per cent productivity would be. I do not know!

Mr. HAHN: In your report you indicate that we lost money on our passenger lines but that we are making money on our freight lines.

Mr. GORDON: Yes.

Mr. HAHN: With increased traffic on our passenger lines are we going to lose more money?

Mr. GORDON: It depends on the nature of the service. On our main line passenger trains increased volume will reduce the loss. There is no doubt about that.

Mr. HAHN: What about the short lines?

Mr. GORDON: On the short lines, it is hard to say. You might say that with commuter services, for instance, definitely no; and that constitutes 37 per cent of our passenger service. I cannot see how it could be made profitable under the circumstances and for the simple reason that that service is a peak load service and that we only have two peak loads during the day. During that intensive period we have to put on equipment to handle a huge volume of traffic on the different lines where there are commuter services, and as well we have to have the crews. Because, commuter services mean the handling of peak loads it puts the economics on a basis where you cannot make money.

Mr. KNIGHT: I think that was discussed before. There has never been any attempt made to experiment with different types of equipment in such commuter services. I am thinking of various other countries where they have it. I do not know what their experience has been.

Mr. GORDON: We have done it and we have intensive investigation under way now. At the present time our Mount Royal service is a commuter service and we have specialized cars. I do not know if you have ever ridden on them but we have special cars built for the purpose of carrying as many people as possible during that short run through the tunnel. The other thing, however, is that it is usually not good economics for a railway to have specialized equipment because that specialized equipment is not interchangeable. The result is that when you tie up your equipment in commuter service as such, you know that you cannot use it on services other than commuter service. Then, let us say, on Sundays and holidays when the commuter service is not running, you are not going to use that equipment at all and thus you get less utilization, because it cannot be made interchangeable.

Mr. KNIGHT: I take it population is a factor or rather the density of population.

Mr. GORDON: Very definitely.

Mr. KNIGHT: You mentioned New York. I was thinking of the Delaware and Lackawanna Railway in New Jersey, and also London as a matter of fact.

Mr. GORDON: It is dependent on carrier conditions and on volume. In London, England, they do have a service that is profitable because the volume is such they can adjust to 100 per cent operation. In our experience here, under our conditions, we are talking about a peak load situation. In London, England, while they have a huge peak load situation they also have all through the day enough volume to keep the equipment running all the time. The trains there are going in and out of the stations practically every two or three minutes. We are not in that position.

Mr. KNIGHT: It boils down to density of population.

Mr. GORDON: Yes, it does.

Mr. BYRNE: We have had several questions asked on income tax. I am wondering how many years you carry forward your losses before you reach a point where you start to pay income tax.

Mr. R. D. ARMSTRONG (*Comptroller, Canadian National Railways*): I think it is four years back and one year forward.

Mr. BYRNE: For instance, you have had two years of profit. When would you have to start paying?

Mr. GORDON: This year, if we have a profit. We have only had one deficit in the last four years. If we make a profit this year, then we start paying income tax assuming we have nothing else to carry forward.

Mr. HAMILTON (*York West*): You carry forward one year?

Mr. GORDON: Back four years and forward one year.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): In the year under discussion the increase in property investment was something in the nature of $203 million and the retirements in the same field were something less than $42 million. That, of course, represents mainly an expansion program on the part of the line. The question I wish to ask is, I suppose over the next several years at least you have equal requirements for additions to property and investment generally.

Mr. GORDON: Well, again I will have some statements on that very point when we have discussion on our budget.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): The reason I asked the question is it relates to the possibility of being able to retire some of this indebtedness.

Mr. GORDON: If you would permit me I would like to reflect on that question, and I will have some figures before you during the discussion on the budget which I think will be helpful.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Has the company one eye cocked towards the possible inflationary pressures of activity.

Mr. GORDON: Very definitely. Again I will have a statement on that very point when I ask the committee for the approval of our budget. In thinking of our expenditures this year we have a policy of very definite restraint. We are postponing and deferring everything that is not classified as absolutely essential or is not likely to produce a rate of return so interesting that we felt we should go forward with it. However we have cut our program this year very substantially indeed.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): In relation to this year's operation you told us from time to time you were following a practice, and you used the words "punitive deferred maintenance". Are you still following that policy?

Mr. GORDON: No. That is what we do not do.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I am sorry. I had misunderstood.

Mr. GORDON: Our whole policy in respect to maintenance generally is to avoid anything taht could be called punitive deferred maintenance. There is a certain type of maintenance that we can put off from this year to next without hurting us too much. I have a story on that again in the budget.

Mr. FOLLWELL: Mr. Gordon mentioned the C.P.R. Do you have an interchange of information with the C.P.R. of all details or do you have it through the railway association?

Mr. GORDON: We have very close association with the C.P.R. and they provide us with all details which they care to let us have.

Mr. FOLLWELL: Do the Canadian National Railways or any of their senior officials have any C.P.R. stock so that they could have all the information?

Mr. GORDON: I can only speak for myself. The answer is no.

Mr. FOLLWELL: You have no way of obtaining all details?

Mr. GORDON: It depends what you mean. You must remember in the railway industry there is a lot of intensive statistical information which the railways must provide to the Dominion Bureau of Statistics. There is hardly any question I can think of having to do with operation, or anything that would be of assistance in comparing our positions, which is not available from the Dominion Bureau of Statistics. If you are discussing the question of reserves and distribution to shareholders, that is another question; but in respect to the operations of the railway my answer is all information is available through recognized sources.

The CHAIRMAN: Shall paragraphs 1, 2 and 3 inclusive on page 5 carry?

Agreed to.

The next items 4 to 9 inclusive deal with freight.

Mr. KNIGHT: On item 5 I see there is a grain tonnage increase of 37 per cent. We are interested in that in my part of the country. What is the relationship between that increase and the success, if I may say that,—and it is a success,—that the railroad has had this year.

Mr. GORDON: That raises the general question that always has been raised about the profitability or otherwise of grain moved under Crownest Pass rates. My opinion is that that business is marginal. Other opinions have been expressed to the effect that it is conducted at a loss. That question can be established only by a very detailed analysis.

Mr. JOHNSTON (*Bow River*): Have you the cost per ton mile in handling grain? I notice you gave the over-all ton mile, but what would be the cost of hauling grain per ton mile?

Mr. GORDON: Without a very, very detailed, very expensive and long analysis we could not give you that figure in connection with any traffic for that matter. However we do have the over-all per ton mile rate. This year our average revenue was 1.461 revenue per ton mile. That compares with last year of 1.511 cents per revenue ton mile. That is the over-all average. It is the same thing mentioned in paragraph 6.

Mr. JOHNSTON (*Bow River*): That is from all freight.

Mr. GORDON: Yes. If we take any specific item in here and try to establish a cost accounting of that it becomes a very involved and very difficult answer to give.

Mr. JOHNSTON (*Bow River*): Then how would it be possible for either the C.N.R. or the C.P.R. to claim that they lose money on the haulage of grain when particularly one of your greatest items for freight is grain and your over-all profit is high?

Mr. GORDON: Let me make myself clear. We do know, as a general approach, what our costs are in respect to the specific types of traffic. What I am saying is if we had to produce those costs before a judicial body then we would have to establish a techinque which would be time-consuming and very involved. That is why I have always refrained from making an assertion because the minute I made such an assertion I know many people would immediately challenge my figures; they would not believe them.

Mr. JOHNSTON (*Bow River*): When you say that you refrain from making the statement do I take it that the C.N.R. has never proposed that there should be an increase in the Crowsnest Pass rates?

Mr. GORDON: We never have, so far as I know. We have said in our opinion the rates for moving grain are too low in relation to the cost, but certainly in my time we have never conducted a campaign of saying the Crowsnest Pass rates should be raised, for the simple reason that we regard that as a matter for parliament. It is a matter for statute and a matter of law. I obey the law; I do not challenge it. I may have opinions about it, on the other hand.

Mr. JOHNSTON (*Bow River*): I think it is common knowledge that the C.P.R. definitely has attacked the Crowsnest Pass rates.

Mr. GORDON: Anyone who has views about changing the law can express those views properly. If I were called as a witness before a properly constituted body which had for its purpose the examination into the rates I would state my opinion.

Mr. JOHNSTON (*Bow River*): When you made the general statement in respect to the haulage of grain did you not have to go into a very extensive and detailed study of the cost per ton mile of hauling grain.

Mr. GORDON: Yes.

Mr. JOHNSTON (*Bow River*): There was an increased over-all revenue from freight, and grain is one of the large commodities hauled.

Mr. GORDON: Yes. But you must remember this. This is something which gives people a feeling that there are unfair statements being made about the hauling of grain, because of the fact that any time when there is a large grain crop in western Canada which is being sold the railways always prosper, not necessarily because they are hauling grain but rather because a large grain crop being sold has a fertilizing influence all through western Canada. When the farmers are getting cash they are buying refrigerators, automobiles, kitchen stoves and everything and we move that traffic from east to west. A prosperous west in terms of grain means a prosperous Canada and a prosperous Canada means more traffic for the railways. That is why I say you go around and around in this circle. If the railways broke even in the handling of grain it might be stated perhaps that they would do well because of the influence of the handling of the grain on the rest of the country; but that does not answer the question as to whether or not we are getting a fair price for our service in shipping grain.

Mr. JOHNSTON (*Bow River*): I take it that is only a general statement.

Mr. GORDON: Yes. I have been asked the question so often by people who say if railways lose money or do not make much money in handling grain then how is it the railways are prosperous when there is a big crop. The answer is because everything else is prosperous. Canada still is heavily influenced by its wheat crop. We are less influenced as the years go on, but it is still the case and has been the case even moreso in the past, that a good crop in the west meant prosperity in Canada.

Mr. JOHNSTON (*Bow River*): Then all that you relate about the C.N.R. losing money on the hauling of grain is somewhat of a very generalized statement and cannot be taken too seriously.

Mr. GORDON: Please do not put words in my mouth.

Mr. JOHNSTON (*Bow River*): I am serious about it. Mr. Gordon just told us when there is a large movement of grain there is an overall prosperity in the railways as far as freight haulage is concerned. I point out that particularly he has said that probably on a detailed study it might be shown there was a loss.

Mr. GORDON: Just a minute. There is another point you must keep in mind, and this is very important.

Mr. JOHNSTON (*Bow River*): It is a very important thing, particularly to the west.

Mr. GORDON: But you have got to get this point right. You see, we start off with the fact that we have a railroad built. It is there. We have cars there, we have got a track there, we have buildings, we have a huge capital investment in the railway. It is just like a manufacturing plant; if you have a huge plant and you are doing 10 per cent of the capacity of that plant, you are going to lose money. But, as you increase the actual handling through that plant, you get to a point where your overhead costs are being met. So because we have got this huge plant in the form of a railway in western Canada, as we are getting the volume increased, and getting money out of it, we are getting some contribution to our overhead, although we may still be losing money. The point is, we will not be losing as much money. We could be losing money on the handling of wheat at a given volume, which would be much more than at another volume.

Mr. JOHNSTON (*Bow River*): That is a hypothetical instance.

Mr. GORDON: No, that is a fact.

Mr. JOHNSTON (*Bow River*): You said you could be losing money, but you are not sure.

Mr. GORDON: No. I say, at a given level, a given volume of wheat, we would definitely lose money, and as that volume increases, we get a contribution to our overhead, which will reduce our loss, relatively, because we are using our plant. The plant is there.

Mr. Johnston (*Bow River*): Oh, yes.

Mr. Gordon: If I were starting from scratch, and you were to say to me, "Build a railway— what will it cost you to move grain?"—then I could give you a figure that would startle you. But, since the plant is there, then it is to our advantage to get some contribution to our overhead for the purpose of reducing the loss.

Mr. Johnston (*Bow River*): Do you know of any detailed study that the C.P.R. has made in connection with the hauling of grain, on a tonnage mile basis?

Mr. Gordon: I am not going to speak for the C.P.R. at all.

Mr. Johnston (*Bow River*): I was just asking if you knew of any study that was made.

Mr. Gordon: I do not think I should be asked that question even. I do not think I should be asked it, because I have no official knowledge of any C.P.R. study.

Mr. Johnston (*Bow River*): I think that is fair enough, that there has been no official knowledge by anybody that there has ever been a detailed study.

Mr. Gordon: I am perfectly certain that if you were to write to the president of the C.P.R., and ask him about his position in handling grain, that he would reply and give you some of those details. But, I do not feel that I should attempt to interpret their position.

Mr. Johnston (*Bow River*): I was not asking you to interpret their position. That was not my point in asking that question. I was just wondering if there was any detailed study made of this, showing that the charges which are made by the railways, and particularly the Canadian Pacific—and I use them because they are the ones that are spearheading this attack—have claimed that there has been a definite loss, and there is a great need to increase the Crowsnest Pass rates.

Mr. Gordon: I speak subject to correction, but I believe that you would find, in various places, whether in a freight rate hearing, or elsewhere, that the C.P.R. has expressed its willingness to discuss its costs in terms of moving grain.

Mr. Knight: Would you go as far as admitting, Mr. Gordon—because this is the way I have interpreted what you said, and I do not like to use that word "admit"—that you have quite possibly lost a little money on grain, but through the plenitude of grain, you make a good deal of money in other directions? In other words, you would get extra money for the freighting of the materials which this grain would buy, when the profits were in the hands of the farmers?

Mr. Gordon: What I was trying to explain there was what I call the fertilizing effect of a grain crop in the west.

Mr. Knight: A good word for a crop.

Mr. Gordon: A good crop in the west usually means that the west is buying; and if the west is buying goods, then we move it.

Mr. Fulton: I do not want to anticipate specific questions, but would the effect of the program referred to in paragraph 77 of the report, where you discuss the evolution of more effective statistical and cost control systems—

An Hon. Member: What page is that?

Mr. Fulton: It is paragraph 77 on page 21.

Would you anticipate that eventually, when that work is completed, and when the installation, or the working out of that system is completed, you might be able to break your statistics so as to show the cost of handling grain, or is it designed towards producing that sort of a result?

Mr. GORDON: I did not have that particular thing in mind in that paragraph, no. I was talking more in terms of the cost control statistics that arise out of production methods, and by-products of that kind. But, I am afraid that I may have got this a little confused. I want to try to clarify this question because, as you said, it is a very important one. I am nervous right now that the press of this country, listening in here, will get a distorted account of what has been said here.

First of all, I want to make it clear that I am not making any statement at all in respect of the Canadian Pacific Railways position, I am not qualified to do that.

Mr. JOHNSTON (*Bow River*): I think that is understood.

Mr. GORDON: They are much more competent to do that than I.

Secondly; I want to say to you that in regard to the Crowsnest pass rates, the C.N.R.'s position has always been that there is a statute governing those rates, and we are obeying that statute.

Thirdly; if there is any investigation, or reason for an investigation in regard to the adequacy or otherwise of the Crowsnest pass rates, and we are asked to give our opinions, we will give our opinions, and we will be in a position to provide the necessary information. We can produce those costs, and we can put them before any proper board that may be set up for that purpose.

Mr. JOHNSTON (*Bow River*): But you do not have them at the moment?

Mr. GORDON: It depends on your date. What is true today may not be true six months from now, and may not be true a year from now. But, if there is an analysis requested from us on any particular date, we will be there, and we will give the figures factually. But, I do not want to be drawn into a position to give guesses or estimates in response to what might be called a casual question on the subject. It should be handled on the basis of an authorized investigation.

I have mentioned to two previous committees the same general thing that I am saying now.

Mr. KNIGHT: This 37 per cent looks like a startling increase. Of course, that is due to certain unusual conditions the year before, but I would just like to ask this: I know that it is not covered by the report, but is it continuing to be progressive—in other words, in this year, 1957?

Mr. GORDON: That will depend entirely on sales.

Mr. KNIGHT: And up to the moment?

Mr. GORDON: You cannot talk much of the moment, because we are not moving grain right now. As a matter of fact, from our point of view, there is a wheat shortage in the country right now, because we have got box cars, and would be willing and anxious to move wheat, but cannot get it. So, from our point of view, there is a wheat shortage. That may be startling. Next August, or September, when you are talking about a box car shortage, Mr. Knight, I would like you to remember that as of February there was a wheat shortage.

Mr. KNIGHT: I meant that you have the box cars.

The CHAIRMAN: I think Mr. Hahn has a question.

Mr. HAHN: Yes. On this Crowsnest Pass agreement, I was just wondering if possibly we could have the figures for the grain hauled during each of the years 1952 to 1956—there should be some relationship and then the over-all tonnage haul as well—including the grain hauled during the past five years.

Mr. GORDON: Well that would merely be a matter of getting the tables taken from one of our annual reports. Is that what you had in mind?

Mr. HAHN: Yes. We do not have them here in a comparable way.

Mr. GORDON: I will be glad to provide you with that if you would like me to put it on the record.

Mr. HAHN: Yes, I wish you would.

Mr. GORDON: Just so that I understand you, you wish to have the total tonnage hauled in each of these past five years and also the amount of grain tonnage hauled in those same five years.

Mr. HAHN: Yes, that is right.

Mr. GORDON: And perhaps the percentage.

Mr. HAHN: And the net profit—which is in the report now—that is the deficit or the surplus.

Mr. Gordon: For the system?

Mr. HAHN: Yes—for the system.

The CHAIRMAN: Well of course that is already on the record—the question of the profit position.

Mr. HAHN: Yes I realize that, but we have not got the three together.

The CHAIRMAN: It seems to me we are mixing up a number of different matters.

Mr. JOHNSTON (*Bow River*): Pretty important ones.

The CHAIRMAN: Yes but the way the question is being put, it seems to suggest that there is a connection in the mind of the witness, necessarily a connection between the items which are covered in the statement.

Mr. HAHN: I do have some other questions not relative to this matter.

Mr. BYRNE: Mr. Chairman, I have some questions relative to this.

The CHAIRMAN: All right, Mr. Byrne, we will hear your question.

Mr. BYRNE: In paragraph 5 the report states that the "Canadian National carried 99 million tons of revenue freight an average distance of 423 miles" and then in the next sentence it says "revenue ton miles, the product of these two factors, rose by 17.5 per cent to a new high". Now I was going to ask the actual tonnage increase but I presume that the revenue ton miles have been increased by 17.5 per cent?

Mr. GORDON: You will find that on page 36, I think, the figures you are talking about. Revenue ton miles, I might just explain to you, we regard it as being the best measure of production of the railway because they take into account the distance. That is why we always refer to it. Revenue ton miles is the tonnage we handle multiplied by the respective miles it moved. And, if you will look at page 37 you will see the revenue ton miles are shown at 41 million. You could call it 42 million but in exact figures it is 41,935,388 as against 35,677,183 in the previous year. There is your comparison I think.

Mr. BYRNE: I was just wondering if there was anything significant in this other figure for grain tonnage as increased by 37 per cent. The overall revenue ton miles has increased by 17.5 per cent and yet the average return has dropped from 1.51 to 1.46.

Mr. GORDON: Yes that is right that simply means that the quality of the tonnage, the composition, or the mix of the traffic has been affected by the rise in the lower value traffic and the reduction of the higher value traffic. You will see that average figure drop in our revenues there which means that the lower price traffic, the big volume traffic, and specifically in this case wheat, showed an increase on the average of the system and that proves, as I am saying, that the average return from handling wheat is much less than it is from handling other tonnage. Thit is why it pulls the average down.

Mr. BYRNE: Have you any figures showing the comparable rates in the United States for hauling grain?

Mr. GORDON: Yes, we could get those figures. I do not have them here but they are available and I will be glad to get those figures and put them on the record if you would like. I think we could get them in short order.

Mr. BYRNE: Yes, thank you.

Mr. HAHN: Mr. Chairman, the other questions I have are with respect to the hauling of freight in British Columbia itself. I understand in the past year there have been some considerable changes in the freight rates that were charged, let us say, on the Canadian National Railways to Vancouver from Burns Lake and Terrace area, from the Prince George region.

Mr. GORDON: Are you speaking about the lumber rates?

Mr. HAHN: No, I am speaking of all freight rates, pretty well as a general thing.

Mr. GORDON: Well, I was just wondering exactly what you where asking.

Mr. HAHN: I was just wondering how the rates compared. We have, for instance, as I understand it, a rate from Prince George which is less thant it is from Kamloops to Vancouver. How do you work these things out anyhow?

Mr. GORDON: I either have not understood your question or else your question is wrong, I do not know which.

Mr. HAHN: Well the information I have is that in the Prince George region freight carried on the C.N.R., from Terrace or Burns Lake carried by C.N.R. to Vancouver, for instance, is less than the rate that is charged from Kamloops to Vancouver.

Mr. GORDON: I do not think you can make a generalization of that kind. In order for me to answer you intelligently I would have to know the specific matter to which you refer. There may be different types of traffic—the composition of the traffic, where there are competitive rate conditions. There may be a rate quoted from Prince George coming into the eastern market as against a rate that is going the other way or it could be a specific agreed charge.

Now the agreed charge procedure which we have been enlarging a good deal, means that we do make special rates for specific commodities against the undertaking of the shipper to give us a percentage of his traffic by rail. I am just taking figures out of the air but, supposing an individual will guarantee that he will move say 80 per cent of all his traffic by rail, then we will give him a special rate under the agreed charge procedure, and that agreed charge is a contract that can be applicable to all railways not only the C.N.R. and other shippers, as well. It is a tariff which is filed under the agreed charge procedure. Now that applies not only in British Columbia but in the maritimes and in Ontario and there could be cases of that kind where a specific agreement has been entered into which will bring the traffic to the railways that otherwise would not be there.

Mr. HAHN: Well possibly the reason for the question lies in the fact that there have been certain charges made in my province that this change in the freight structure in fact took place—the freight structure I should say actually took place following the completion of the P.G. Railway which took traffic from the Prince George area into Vancouver, direct.

Mr. GORDON: No, that generalization is not true; there has been no general change in the freight rates because of the P.G.E. There may have been specific freight rate adjustments arising out of competitive condition.

Mr. CARTER: In connection with that question, Mr. Gordon, I have heard complaints in my riding, that people shipping fish from one point—say, if they ship up through St. John's, they get a cheaper rate than if they ship say part way to St. John's and along the line...

Mr. GORDON: The freight rate structure is a most extraordinarily complicated subject and I am not qualified to deal with freight rates in detail without competent advisers being with me. However, it is wrong to talk in generalizations. I would have to know the specific case in every instance. But it is perfectly true that what you say could happen in a series of circumstances. There are rates which come into my mind right away, and as soon as I start talking about them, I know I will get into trouble because I do not know enough about it. But, the rates on the north side of Newfoundland are quoted on the assumption that a railway exists, although traffic comes down by ship, and those rates are beneficial to those out-port areas. But there is a history behind all these things and I woul have to know the specific instance and I would have to review the history before I could deal with it intelligently.

Mr. CARTER: Would it be possible to take a specific case, say 100 pounds of fish originating in Burin and going to St. John's and that same shipment being put off say at Holyrood, say perhaps 20 miles short of St. John's?

Mr. GORDON: I will try to get that. I do not know if I can because, as I say, I know from experience it is a complicated matter. All I can say is there is a reason for it and secondly I know there is a good reason for it.

Mr. FULTON: Are those two different things?

Mr. CARTER: Well I would like to know the reason because I am thinking I may have a lot of questions to answer.

Mr. GORDON: It all depends on the point of view. You have through rates and you may have short-haul rates and 2-line rates—and it may be a question of the through rates versus short-haul rates. There are a lot of complications which politicians have devised for the last 100 years and which the railways have had to respond to. But I would have to know of the specific case in order to give you a story on it. In any case I may say that every one of the situations that you have mentioned is a matter of public knowledge and a matter of published tariffs. There are no secret rates, no understandings in regard to any rates quoted in the railway business. We have published tariffs and they have to be approved.

Mr. CARTER: I think, you see, that the ordinary fisherman would figure that the further distance his freight has to go the more it should cost.

Mr. GORDON: I wish everybody felt that; I wish everybody felt that about traffic.

Mr. CARTER: But when they find that there is some person shipping a longer distance and they pay a cheaper rate for it—well then of course they wonder why.

Mr. GORDON: Yes, it does not sound right, I agree with you, but there are good reasons for it, as I say. You do get questions of through rates versus short haul rates and maybe two-line rates. There may be complications of half a dozen factors. It may be that in the area you are talking about there is a shipping company—I do not know what the routing is. It may be handled more than once.

Mr. CARTER: No, there is no other one. It goes by boat say from Burin.

Mr. GORDON: Well, let me have a specific case and I will give you an answer to it. You have not that information here?

Mr. CARTER: No.

Mr. GORDON: Well, I will certainly have it analysed.

Mr. HAHN: Is this the point at which you would discuss the rental of cars and exchange of cars?

The CHAIRMAN: No. I think that comes later.

Mr. GORDON: Yes, that is mentioned later under "Taxes, rents, other income and fixed charges" on page 11.

The CHAIRMAN: Then shall this item be carried?

Mr. HAMILTON (*York West*): Well, Mr. Chairman, I have one point here, the drop in the ton mile revenue in addition to the type of goods that is being carried which is reflected in figure. Is there any indication of other methods of transportation getting some of this business, I mean of this higher classification?

Mr. GORDON: Oh very definitely. That is our main and acute problem in regard to trucking competition.

Mr. HAMILTON (*York West*): Is there anything other than trucking? Are the air lines getting any of that?

Mr. GORDON: No, I do not think so, not in important quantities.

Mr. HAMILTON (*York West*): Not appreciably.

Mr. GORDON: Not in important quantities, at any rate not in regard to freight; but the trucks certainly have gone after our high-valued traffic and that is our big problem.

Mr. HAMILTON (*York West*): In connection with paragraph 7 dealing with your application to the Board of Transport Commissioners, when was this application made? I see it says that it was in June that you got your interim increase of 7 per cent. But when did you actually make your application?

Mr. GORDON: We made our application right after the wage award. I have not the exact date at the moment. But we made it closely following the wage award, you know. I seem to have every other detail except that exact date. It would be around March or April, I think. It was a combined application. I should remember the date but I do not do so. I have not got it in my file. But I can tell you that it was in the hands of the Board of Transport Commissioners or about to be placed before the Board when we were here last year.

Mr. HAMILTON (*York West*): What is the usual length of time that you find elapses before you get a final decision?

Mr. GORDON: It varies very considerably. I do not think I can say there is any normal time. It depends on the character of the opposition. We have had occasions when we got a quick judgment on an interim basis.

Mr. HAMILTON (*York West*): I shall only refer to page 9 for reference; but there your wage rates are now pretty well set for two years, I think, from April or May of this year?

Mr. GORDON: They are subject to the increase that takes place in June of this year. The wage rates are subject to another increase coming into effect on June 1st of this year.

Mr. HAMILTON (*York West*): That is right. They are on a sliding scale.

Mr. GORDON: Yes.

Mr. HAMILTON (*York West*): Was this taken into account in the current application before the Board of Transport Commissioners? Were these increases in wage rates taken into account when you made your application?

Mr. GORDON: Yes, because under the procedure of the Board of Transport Commissioners we have to provide a forecast both of revenues as well as expenses and to include in it anything we know about. And we did know about that increase.

Mr. HAMILTON (*York West*): You will need the full increase to cover that additional $40 million, will you not?

Mr. GORDON: That is our presentation to the board and indeed I doubt if it will be enough. Even the full 15 per cent would not cover it. I think I said in paragraph 21 that these settlements will add about $40 million. My recollection is that it will not be enough to cover the actual cost increases including the health and welfare scheme.

Mr. HAMILTON (*York West*): Should that be taken into account in this application or have you in mind already making another application?

Mr. GORDON: When we argue the case with respect to the 4 per cent, we will have an opportunity to present evidence on a current date basis.

Mr. HAMILTON (*York West*): Even this four per cent would not be sufficient?

Mr. GORDON: I am doubtful if it would be enough to cover it.

Mr. HAMILTON (*York West*): On the basis of the interim increase you have been allowed, are you running ahead of your increases with your wage contracts, or are you already behind?

Mr. GORDON: I have said in the report somewhere that—where is that paragraph—that the increase in our wage costs was more than in the freight increase we have. Where is that?

If you will look at paragraph 9 it says:

> The additional revenue which these rate increases produced in 1956 fell substantially short of meeting the additional costs of higher wages and other benefits and increased material prices incurred during the year.

Mr. HAMILTON (*York West*): In other words, you have answered my question that this interim increase which you have been granted is already behind the "escalating" clause of the agreement.

Mr. GORDON: That is right.

Mr. HAHN: Mr. Gordon has said that the actual increase is established on the freight rates as a percentage basis so that the more freight we carry, the more those two things are going to equate themselves, are they not, or the more closely they will be knit. But suppose the gross national product should increase to $32 billion, what then?

Mr. GORDON: That is why we cannot be precise. But when we appear before the Board of Transport Commissioners with respect to our application covering this four per cent, we will be given an opportunity then to present evidence on a current basis and to forecast with respect to our own position, our revenues, our material costs, and wage settlements.

Mr. HAHN: I would not want the impression to get abroad that we are automatically expecting an increase in freight rates and that we can balance it with an actual percentage increase so as to offset one with the other.

Mr. GORDON: You can depend upon the Board of Transport Commissioners for that.

Mr. HAHN: We find the public becoming acclimatized to these things ahead of time and I thought this might provide a sounding board for this particular item.

Mr. HAMILTON (*York West*): I did not think that I was becoming part of a sounding board.

Mr. BYRNE: You are always sounding off!

Mr. HAMILTON (*York West*): If my assumption is correct that we are already behind in our interim amount here, our increase by the Board of

Transport Commissioners, we are also behind on our escalating clauses in the wage agreement. May we not go to the Board of Transport Commissioners in anticipation, or do the railways always have to have absorb it as a cushion here?

Mr. GORDON: We have never been able to go to the board in anticipation of any increase. I do not know if the board would listen to us or not. I doubt if they would. We have to have a demonstrable situation to show that our freight rates are inadequate.

What we are talking about here is that the railway is caught in the same economic squeeze as the whole country, in regard to steadily rising costs as against its earning capacity.

If we continue to have the situation where our costs increasingly keep on pushing up, not only with respect to wages on the railway but also the cost of materials and supplies, we will have the problems which arise in an inflationary situation. There cannot be any question about it. Because if the railway increases its prices, then somebody elses costs must go up as well.

I am always impressed by the fact that in the steel industry, for example, when a wage increase is demanded and a settlement takes place, then within 24 hours we get a price increase and nobody says a word about it. But when we settle with our labour, and within six months we get a price increase, there is all hell to pay. Excuse my language. Nobody seems to trace the cause and effect on a railway basis, yet our problem is exactly the same as in any other industry.

Mr. HAMILTON (*York West*): Other people are caught in the same squeeze, yet they do not have the over-all control.

Mr. GORDON: That is right, but they just pass them on as quickly as possible. They are free to do so, because they can pass them on much more quickly in other industries than it is possible for the railways .

Mr. HAMILTON (*York West*): I think that is the situation here because it seems to me that now we have an example of a fairly well set out wage expense. You have a two year program and you know where you are going to be for a period of two years, let us say, from the last of May or June. Yet you say already that you are behind with the program and with your current application to the Board of Transport Commissioners.

Mr. GORDON: Yes, but remember that I also say that a great deal depends upon volume. If I could predict or foresee that our volume of traffic was going to be substantially increased for the next year, I would not ask for an increase in freight rates.

Mr. HAMILTON (*York West*): All right. There seems to be one intangible left. How much and how far have you been able to forecast or predict what the situation will be in 1957?

Mr. GORDON: One year ahead? When I come to my budget, I can give you the details of predicted revenue versus expenditures. We try to predict them a year ahead. But it is a difficult thing to predict, because nothing can change faster then railway traffic. It is a barometer of economic activity which is most sensitive. So when we have to make a budget, we have to make a calculated guess—we have to make an informed guess, but to all intents and purposes it is still a guess. It is my guess that from a revenue point of view we will be somewhat higher than last year but not much. I am talking about gross revenue.

Mr. HAMILTON (*York West*): Will it cover these increases in operating expenses?

Mr. GORDON: Not without the four per cent increase in freight rates.

Mr. HAMILTON (*York West*): Does the whole solution mean that the Board of Transport Commissioners must not accept an application because of anticipation?

Mr. GORDON: You would be getting into a very difficult position. I would not want to go to the Board of Transport Commissioners before my wage agreements are open, because if I should say: please give me a wage increase, it might indicate that I expected that there might be a wage increase.

Mr. HAMILTON (*York West*): You have to go to them on the basis of the amount of business?

Mr. GORDON: Yes. I can say too that it has not been a question for many years because we have been steadily rising in this country. We are in an expanding economy. But I would like to make it clear that nothing I have said should be taken in any way as a reflection or criticism of the Board of Transport Commissioners because they are doing their job well within the terms that are entrusted to them. Remember, they are bound by statute. They are not making opinion decisions. Their job is to do what the statutes say they must do.

The CHAIRMAN: Is the item agreed to?

Mr. HAHN: In connection with paragraph 8, it say:

> In the United States the Interstate Commerce Commission authorized a general six per cent increase in freight rates effective March 7, 1956...

Mr. GORDON: Mr. Hamilton, I am just reminded of a point which I should have made. There is a great difference between having a freight rate increase granted and getting it because the effective increase we get as the rates go up tends to get lower and lower. As the rates go up we are up against a competitive factor which means we cannot collect anything like what we are authorized to because we are pricing ourselves out of the market. It is becoming more and more the case that every increase we get we tend to keep less of it. We have to watch it because it does not do us any good to get a 15 per cent increase and find we can only collect a figure substantially less than the actual apparent amount.

Mr. JOHNSTON (*Bow River*): Then you would ask for a little more than you expect to use?

Mr. GORDON: No.

The Hon. Mr. MARLER: Mr. Chairman, it seems to me Mr. Johnston's question implies it is just a matter of how high the ceiling should be. It is not the ceiling which sets these rates. It is very often the cost of competition which puts a ceiling on how much you can get.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): It seems to me the one conclusion I get out of this is, if we have to get to work from tangibles always, that we must come with facts; but it is absolutely essential that these decisions be obtained at the earliest possible moment or you will always be one step behind.

Mr. GORDON: There is a time lag which is very difficult. You will notice in this paragraph that the Board of Transport Commissioners recognized that very thing. That is why they have given us these interim increases. They have said in effect, "We cannot, in the light of representations made before us, decide your whole case but we do recognize the situation is so urgent that without hearing evidence we will give you some increase." They have given us two increases; the first 7 per cent they granted almost immediately.

Mr. HAMILTON: But I am interested in the fact that it still is not keeping up with the cost.

Mr. HAHN: The reasoning that the rates will be whatever the traffic will bear by reason of competition intrigues me. I heard other representations made regarding the competition which the P.G.E. was offering in a particular area.

Mr. GORDON: With respect to the question as to whether or not our rates were influenced because of the P.G.E.—

Mr. HAHN: Not that specifically. I have no particular reference to it at this time. I would like Mr. Gordon to take specific instances of any changes in freight rates which have taken place since the P.G.E. has been in operation. I am not discounting what he has said, but it would appear here that they had no competition before and that the charges are now made that those people have been paying too much freight for a period of years for the same or similar items. Maybe the agreed charge is a complete answer to it. I think possibly you might look into that and give us a further statement later.

Mr. BYRNE: Do you not believe in competition?

Mr. HAHN: I certainly do. What I am trying to say is apparently we have got to have a line running parallel to another in an area in order to be sure that we get the lowest freight rates.

Mr. GORDON: From a railway point of view?

Mr. HAHN: It would appear to be so.

Hon. Mr. MARLER: As I interpret it, what you are really saying is that as a result of the P.G.E. the allegation is made that railway rates have been adjusting downward because of the fact that the P.G.E. went into business; and I thought I heard an earlier statement from you that some people had always been paying too much.

Mr. HAHN: Yes.

Mr. GORDON: What is "too much"?

Mr. HAHN: Compared to what they were paying before. Let us take, for instance, the price for hauling canned goods into Prince George.

Mr. GORDON: Canned goods I happen to know are under an agreed charge. We worked out the canned goods agreed charge arrangement and the P.G.E. became a party to it.

Mr. HAHN: When was the agreed charge brought into operation.

Mr. GORDON: I will get that date for you. I have not got it here, but I remember the negotiations very well. I cannot remember the effective date. I imagine it was probably two years ago that it went in.

Mr. HAHN: I think it was somewhat relative to the date that the P.G.E. was put into operation.

Mr. GORDON: No, no. I insist on answering that, Mr. Chairman. I want to say, with all emphasis, that whether the P.G.E. had gone through or not, this agreed charge on canned goods would have gone in.

Mr. HAHN: That is fine.

Mr. GORDON: Because we were talking about the canned goods in terms of the trucking competition.

Mr. HAHN: Yes. I am prepared to accept that. However, I am interested in article 8 here.

> In the United States, the Interstate Commerce Commission authorized a general 6 per cent increase in freight rates,—.

I take it that the Interstate Commerce Commission compares to our Board of Transport Commissioners?

Mr. GORDON: That is correct, yes.

Mr. HAHN: Just in reference to that, I was very interested in the Fortune magazine of January, this year, which carried an article entitled "The Great U.S. Freight Cartel". It has quite a huge subheading here.

> Americans are paying billions more for freight transportation than they should. The reason: obsolete government policies have encouraged inefficient freight carriers, penalized efficient ones. It is time for a change.

What I am interested in specifically is this: over the period of the past three years, I have found considerable change in the operation of our own rail lines. I also find that reference is made here to the fact that freight, which is carried across the line, is somewhat controlled by this Interstate Commerce Commission.

Mr. GORDON: It is.

Mr. HAHN: Our freight rate structure, in comparison with the American freight haul—we have had representations made to us in the case of lumber, and I believe you will recall that last year, Mr. Gordon, where the claim was made that, at the moment the Americans increased their rate—and the charge made then was that they were inefficient—then, within a very short while we had to up ours because of the agreement. That was the charge made.

Mr. GORDON: It is extraordinary how these things can get distorted. The rough history of that was very simple. The lumber rate that you are referring to—I am not even looking at my notes, I am speaking from memory—the lumber rate you refer to was the competitive rate which had been worked out by Canadian railways with B.C. lumber shippers on the basis of the rate from the west coast of the United States, because they were competing in the same market.. So, we in effect said; all right, we will meet the competitive rate, and that will mean that rate adjustments will have to recognize the level of the competitive rate to the point where you are selling your lumber. We put it to them on the basis that we would in effect tie them to the United States rate. There was no enforceable agreement. We simply told them how we calculated it. They were very satisfied with that, particularly as we would not apply Canadian freight increase to them when it came along. But, the minute that the American freight rate increased, then they raised an awful row about it—why should they get an increase in their freight rate. We said; all right, you cannot have the best of both worlds. Would you rather have it that you take the Canadian freight rate increase, or will you take the United States freight rate increase, and when you say the freight increased because the United States railways did it—

Mr. HAHN: I did not say that, I said those were the charges that were being made.

Mr. GORDON: That is a very subtle distinction. But, nevertheless, that is the way these things work. In the process of any working out of the freight rate, it has to have relation to the competition we meet. We have all sorts of freight rates which are quoted below that of the allowable freight rate, because we must meet the market. That is why I said to Mr. Hamilton that we did not get an effective increase. We asked for 15 per cent over-all. In lots of cases we do not get any increase, and in some cases we only get two per cent, and in other cases we get three per cent. But, when we get into agreed charge bargaining, we deliberately take something below the authorized freight rate, the published freight rate which you will find in our tariff. We say—and it is the same thing that we have said to the canned goods industry—we say, if you will undertake to guarantee that X per cent of your traffic from here to there, and it varies—it may be 60 per cent, 70 per cent, and sometimes it is 100 per cent, the rate would vary with it—but, if it is 100 per cent, we will go lower than we will for 70 per cent. The point is, we are meeting the transportation market in respect of the transportation of goods. Through agreed charges we get traffic to the railway that would not otherwise be on the railway, it would go in trucks.

One further point; in all our agreed charges, we make sure that they are compensatory. In other words, we make sure there is a margin of profit beyond our cost. We do not quote any rates that will go below cost. We insist on a margin of profit. Otherwise, there would be no use getting the traffic. Through these agreed charges we get traffic on the railway that would otherwise be lost to the trucks.

Mr. JOHNSTON (*Bow River*): Is it not true, Mr. Gordon, that when the railways are allowed an increase in the freight rates, such as this one that happened last year when the Board of Transport Commissioners granted a 15 per cent general increase, you only get 11 per cent?

Hon. Mr. MARLER: There was no grant of 15 per cent.

Mr. JOHNSTON (*Bow River*): There was an application for 15 per cent.

Hon. Mr. MARLER: There was an application for 15 per cent.

Mr. JOHNSTON (*Bow River*): Yes. I say, where you were actually granted only 11 per cent?

Mr. GORDON: Yes.

Mr. JOHNSTON (*Bow River*): When you come to set those rates, you must take into consideration the competitive area and the non-competitive area?

Mr. GORDON: Quite.

Mr. JOHNSTON (*Bow River*): The competitive area lies in Ontario and Quebec mostly?

Mr. GORDON: Not necessarily. It can vary according to the traffic.

Mr. JOHNSTON (*Bow River*): Your non-competitive areas are in the west, and in the maritimes. Generally speaking, your increase then applies more greatly in western Canada, and in the maritimes, than it would in Ontario and Quebec. That is an actual fact, is it not?

Mr. GORDON: You see, that is another generalization that should not be allowed to pass. By definition there is competition of a type, in every area in Canada. It may be more intensified in one area than in another, or it may be more intensified in relation to one type of goods than to another. But, we have to deal with it as a matter of practical fact. It may well be that in Ontario there may be more of a certain type of traffic that might go to trucks than there would be in certain portions of the west. We are always exposed to the hazards that competition will develop.

Mr. JOHNSTON (*Bow River*): There is, I understand, competition from trucks and competition from water and some small competition from air.

Mr. GORDON: Quite true.

Mr. JOHNSTON (*Bow River*): And it is because of your water competition, particularly, that your rates in the competitive area are generally speaking lower than they are in the non-competitive area?

Mr. GORDON: In relation to a specific case that could be carried by water, your statement would be right, yes. There are water-compelled rates, as we call them. Those water-compelled rates have to deal with the practical fact that if we did not quote a rate that will at least match water transport, we would not get the business at all. The point that I am trying to make is that it is not the railways that do that. Supposing we did not quote a competitive rate at all, then the goods would go by water and you would be in exactly the same position, so far as your costs in western Canada are concerned.

Mr. JOHNSTON (*Bow River*): Of course, the railways do set the rate though.

Mr. GORDON: No, no, we do not set it. We meet the rates. That is a water-compelled rate and we have to quote in accordance with that.

Mr. JOHNSTON (*Bow River*): Well whether you meet it or not, you actually set the rate that is applied on the railways. You must do that.

Mr. GORDON: But the rate is set. You use the word "set" as if it were a matter of our having a choice, which we have not.

Mr. JOHNSTON (*Bow River*): The matter of water transportation compels you to do that, but—

Mr. GORDON: Yes, as I say it is a water-compelled rate because if the railways did not quote a rate that was competitive with water then the traffic would go by water and the end result is the same.

Mr. JOHNSTON (*Bow River*): Does the same condition prevail in the United States to the same degree?

Mr. GORDON: Oh yes, definitely, even more so.

Mr. JOHNSTON (*Bow River*): Why does it say in this statement then, under paragraph 8, "In the United States, the Inter-State Commerce, Commission authorized a general 6 per cent increase in freight rates, effective March 7, 1956, and a further interim increase of 7 per cent in the east and 5 per cent in the west, effective December 28."

Mr. GORDON: Yes, that is right—

Mr. JOHNSTON (*Bow River*): Well now, they had a smaller increase in the west than they did in the east—

Mr. GORDON: Yes.

Mr. JOHNSTON (*Bow River*): And yet I think on the over-all picture that we had a greater increase in the west than we had in the east.

Mr. GORDON: Well, I do not know the answer to that without checking on the terms of that particular order. It may have been, but I do not know what the factors were there.

Mr. JOHNSTON (*Bow River*): Would not that possibly result from the fact that when the railways in Canada set freight rates, they put a great deal of emphasis on this competitive area and then, in the non-competitive areas they raised the rate on the over-all picture?

Mr. GORDON: No, it becomes a question again of fact. When we make an application to the Board of Transport Commissioners, we know what our cost increases are in terms of wages and prices and we have to get that somewhere, or else we would go bankrupt. We have to get that much money from somewhere and we figure out where we can get it. Say we apply for a 15 per cent increase, we analyse these figures and we say, "there is a source of increase here" but "we cannot get any increase there" and "we would not get any increase here due to competition and other factors, but we could get a 2 per cent or a 5 per cent here"—and after we have analysed the whole thing we arrive at what the actual top increase must be. We are talking about maximum increase, you know.

Mr. JOHNSTON (*Bow River*): That is exactly what I am saying to you, because you have to apply that wherever you can get the most revenue.

Mr. GORDON: Yes.

Mr. JOHNSTON (*Bow River*): Because of your competition, but the over-all result is, however, that the competitive areas in central Canada get a better deal, than the non-competitive areas.

Mr. GORDON: Well, I will go along with you if you take out the word "central Canada", and just refer to competitive areas.

Mr. JOHNSTON (*Bow River*): Is it not a fact that in the Maritimes where there is water transportation the freight rates are higher than they are here in central Canada? That is a fact, because we, even in this new budget, have been given assistance in the Maritimes in connection with the freight rates.

Mr. GORDON: Well, this is a mixture of argument, I think. If the water competition were there we could not get the freight rates. It is because there is no competition.

Mr. JOHNSTON (*Bow River*): Because there is no business there, you mean?

Mr. GORDON: No, there is no competition. There is no competition in the market. We are in business to sell something. We are selling a service, hauling goods from here to there. We can only get for our service what the market will pay and the market will not pay any more than it has to. If it can get a cheaper service from a truck or from a ship or from a bicycle or from anybody, that is where the business will go.

Mr. JOHNSTON (*Bow River*): Naturally so.

Mr. GORDON: And we have to meet that competition.

Mr. JOHNSTON (*Bow River*): What I am trying to explain is that in the over-all picture you have to set your freight rates and one of the main considerations is where the competition is, and where it is not. As a result of that, I leave out the word "central Canada", but as a result of that, the western part of Canada and the Maritimes have to share the largest freight rates.

Hon. Mr. MARLER: I think you are saying the same thing in a different way.

Mr. JOHNSTON (*Bow River*): Well, he wanted me to leave out the words "central Canada", but it is a fact.

Mr. GORDON: Well if you are analyzing this whole matter, and I respect your judgment, and you say that there is more competition in certain parts of Canada than there is in another, then I would agree with you, of course.

Mr. CARTER: I was interested in Newfoundland and you said that there was competition everywhere, in all parts of Canada, and earlier you made the statement to Mr. Hamilton that if you were granted a 15 per cent increase that you probably could not recover more than an average of 9 per cent.

Mr. GORDON: I withdrew that figure; it is 7 per cent.

Mr. CARTER: Substantially less, because there was competition everywhere. Well, is there sufficient competition in Newfoundland to modify your freight rates at all?

Mr. GORDON: Of course, if you take Newfoundland as a typical example it depends on what you are talking about; but I would imagine that in the port of St. John's you would find that they get much cheaper transportation by water than some inland point in northern Ontario. In Northern Ontario you cannot reach it except by overland but in St. John's Newfoundland, you are serviced pretty well by world sources—by ship, and in other areas, railways.

Mr. CARTER: Well we do not get very much now, Mr. Gordon, because we are tied to the Canadian tariff. We used to get that before Confederation but the bulk of our stuff is bought on the mainland nowadays.

Mr. GORDON: There is still transportation by ship going into the port of St. John's on a much cheaper basis of freight than there would be for that same area if we had a railway running across there, or by land.

Mr. CARTER: Yes, but you must know that there has been a terrific increase in the volume of traffic which the C.N.R. is hauling to Newfoundland—much greater—probably double or even more.

Mr. GORDON: I quite agree with you and so is the degree of our losses.

Mr. CARTER: Well, I am not saying that; but that increase that you have in traffic has a corresponding decrease in water-going traffic that used to come in from world sources.

Mr. GORDON: Oh no, Mr. Carter, no. I think that you would be the first to agree, if you take the time to think about it, that Newfoundland is buying much more than she ever did before and that the general standard of living in Newfoundland in respect of ordinary home appliances and so forth has gone up very considerably. Newfoundland is a bigger market now than she ever was.

Mr. CARTER: There are more people.

Mr. GORDON: Yes there are more people and they are living better.

Mr. CARTER: But I still quite agree with Mr. Johnston when he said that when you figure it out, as to where you are going to recover this extra cost, you have to get the biggest share of this increase from somewhere, and Newfoundland is one of the places where you figure you are going to get it.

Mr. GORDON: No, no. You know, curiously enough, we do not figure where we are going to get it. That is not the way we approach it at all. We do start off with a given amount of dollars in the matter of increased cost, you see, and then we analyze our traffic to see what proportion of that amount of increase can be applied to specific types of traffic. Then having estimated all that, we do go on to figure the percentage and, at the end, we have to decide whether it is an over-all 10 per cent with the idea that we are going to get an effective 6, or an over-all 15 per cent with the idea we are going to get an effective 9, or it could be an over-all 20 per cent with the idea we are going to get an effective 12 per cent or what have you?

The net result is that we have got to get the dollars from somewhere.

Mr. CARTER: Yes, but in actual practice you will only raise your freight rates, if you are entitled to raise them, 10, 11 or 15 per cent. There are some areas where you will not raise them at all, and there are some areas where you will raise them up to the limit.

Mr. GORDON: That is right.

Mr. CARTER: And Newfoundland is one of those areas where you raise them up to the limit.

Mr. GORDON: If that is how you feel about it Mr. Carter, I would turn the discussion against you and ask you to give me the figures. I bet you cannot do it.

Mr. CARTER: No, I cannot. So I ask you what the situation is.

Mr. GORDON: There is an end result in a freight rates increase. After all, competitive traffic is profitable and without it other increases would have to be greater.

Mr. JOHNSTON (*Bow River*): I take it that the outstanding point in paragraph 8 is that when the Interstate Commerce Commission authorized their general increase they made it seven per cent in the east and five per cent in the west.

Mr. GORDON: I do not know the effect of that judgment. It may have been that the wage increase in the west was different than in the east. You have different situation in the United States where you have a lot of railways operating while in Canada by and large you have just the two trans-continental railways.

In Canada applications are usually made as joint applications where all the railways join and we go and ask for it nationwide, whereas in the United States it is completely different. It may be that the western railways found they had an increase, while the eastern railways did not. It may be that wage costs would be different in the east than in the west. It is a different situation. You cannot argue just because it is west, or just because it is east that there is a different percentage.

Mr. JOHNSTON (*Bow River*): The picture is just the opposite according to that statement in the United States than it is in Canada.

Mr. GORDON: You say it is just the opposite?

Mr. JOHNSTON (*Bow River*): Yes. In the United States the west got the lower increase and in our country the west got the greater increase.

Mr. GORDON: Well, as I said, I do not know the circumstances. Presumably the details would be different as between east and west; there could be a difference in cost.

Mr. JOHNSTON (*Bow River*): I am referring to the statement as it appears in paragraph 8. I have no detailed information so I am not expected to know the details. All I have is just the general statement made there. The details are not shown.

The CHAIRMAN: Is the heading "Freight" agreed to?

Mr. HAMILTON (*York West*): I do not know if this is the place to ask my question or if I should leave it until later on, but in connection with the number of miles that we have, do you have any means of knowing whether a particular section of your line is making money or not making money, such as in a particular division?

Mr. GORDON: Well, that is one of the questions I always avoid. The reason is that as president of the railway it is my job to do the best I can to analyze things. I work with figures myself, but they are not figures which I am prepared to release because they contain so many imponderables that it would take many hours of research and I do not feel I could make a success of it.

For example, you may have a division of the railway where in the matter of its handling of traffic you see there is a substantial loss but nevertheless it is a feeder of traffic for the system and that fact makes it of value. So I always try to avoid bringing out figures by areas. For example, in the case of Newfoundland and Prince Edward Island you have a self contained unit and you can identify it. But because of my general statement I have always felt that it was not fair and would not be fair to take out isolated areas and to try to "type" one of them as representing profit or loss. Their feeder value has to be analyzed and all that sort of thing.

Mind you, we find this: we may take a specific case where we are applying for the abandonment of a line, and if we take a specific area we can analyze it, and we do analyze it in terms of its feeder value because we have quite a small piece to take. We will present that evidence to the Board of Transport Commissioners and give them such information as we can get. At that time we make a very careful analysis as to the value on the feeders to the rest of the system. We have a formula for doing that.

The CHAIRMAN: I do not want to interrupt but I think probably most of this discussion could come up under the heading New Lines. Could we carry the item "Freight" and proceed this afternoon at 3:15 to the item "Passenger."

Mr. HAHN: The item is not carried?

The CHAIRMAN: The item is not carried.

AFTERNOON SESSION

3:15 p.m.

The CHAIRMAN: I see a quorum gentlemen.

There were some questions asked during the morning session. I think probably Mr. Gordon would like to make some answers to those questions as he goes along. If the committee pleases we will now hear the answers to some of the questions asked.

Mr. GORDON: Mr. Chairman, during the noon hour I have been able to get some figures together in connection with the questions asked by Mr. Hahn. The first is as to the percentage of grain of the total tonnage. I have a table which shows the figures. I might say, if I am permitted, the figures show grain as a percentage of the total tonnage as follows: 11.6 per cent in 1956, 9.6 per cent in 1955, 11.9 per cent in 1954, 16.1 per cent in 1953 and 15.8 per cent in 1952. With your permission I will insert as part of the record the table supporting that.

REVENUE TONS (Millions)

	1956	1955	1954	1953	1952
Grains	11.5	8.4	9.5	13.9	14.2
All other	87.5	79.2	69.8	72.6	75.9
	99.0	87.6	79.3	86.5	90.1
Grain as % of total tonnage	11.6%	9.6%	11.9%	16.1%	15.8%

I was also able to confirm a little more definitely the question which arose out of paragraph 8 of the report with respect to the interim increase of 7 per cent in the east and the 5 per cent in the west in the United States. Those interim increases are part of an application for a 22 per cent increase which is still before the Interstate Commerce Commission. The reason they made it different is because, in the judgment they have now given, they found there was a different impact in the wage adjustments in the east versus the west. The ruling has not been accepted by the railways and they are still making representation to the Interstate Commerce Commission in connection with it.

I have a further series of figures which might be interesting which touches on questions which were raised by Mr. Hahn or by some other member of the committee. In 1956 in connection with grain moved under the Crowsnest Pass rates our average revenue per ton mile was .499 cents, just a shade less than half a cent per revenue ton. If we are asked the question what it was for all western origin grain the figure is .526 cents. The reason for the slight increase is when you include all western grain you include some domestic grain which moves at higher rates.

In respect to a comparison with the United States I have one or two examples which are typical. This covers the amount of wheat moving from Regina to the head of the lakes, a distance of 776 miles. We received 20 cents per 100 miles. Moving from Whately, Montana to Duluth, a distance of 772 miles, the rate is 64½ cents per 100 pounds. Moving from Winnipeg to Fort William, a distance of 420 miles the rate is 14 cents per 100 pounds. Moving from York to North Dakota, 420 miles, the rate is 41 cents per 100 pounds. These figures I have quoted for the United States are those before the recent increase of five cents in the rates, so you should probably add six to eight cents to those figures, whereas the Canadian rate as you know stays unchanged.

In general I can summarize by saying it looks as if the United States rates for the same relative distances in the movement of wheat are at least three times the Canadian rates.

Mr. HAHN: Also there is the question of the P.G.E. in respect to the general question of rates.

Mr. GORDON: I am not yet quite sure I have caught the implication of what Mr. Hahn was trying to find out, but perhaps this will give him an answer. At the time of the extension of P.G.E. and the completion of the John Hart highway, which came in roughly at the same time, it did develop in that area beyond St. George some pretty effective highway competition, and truckers particularly of the northern freightways beyond St. George were able to quote rates which ate rapidly into our rail business. On the basis of that competition we started a series of rate fixations which gave lower rates in terms of higher carload minimum rates by offering consolidated assignments by rail. I think the reduced rates came as a result of meeting the higher competition which developed at that time. If that is what you have in mind it is true that back in 1952 and through 1953, with the completion of the John Hart highway we lost jointly with the C.P.R. a great deal of traffic but are gradually bringing it back by adding incentive rates to attract the traffic back into the railways.

Mr. HAHN: When you speak of consolidated assignment by rail, what does that mean?

Mr. GORDON: We were attempting to quote a rate which would give an incentive by greater loading on the cars; in other words the larger the amount in the box car the lower the rate.

Mr. HAHN: A through car rate. Is that what you mean?

Mr. GORDON: Yes. Then it developed that the P.G.E. also quoted a rate which was a competing rate which included rail plus truck through an arrangement with Northern Freightways, and we in turn met that rate.

Mr. HAHN: I wonder if you could give us a comparison as to the freight rates from Dawson Creek to Vancouver and second class freight from Edmonton to McBride, as an example?

Mr. GORDON: I will have to obtain those figures for you.

Mr. JOHNSTON (*Bow River*): What percentage of reduction in the ordinary freight rates was this new charge under the agreed charge?

Mr. GORDON: I am not referring to agreed charges now. You were referring to the questions this morning which had to do with canned goods.

Mr. JOHNSTON (*Bow River*): Yes.

Mr. GORDON: I have the answer but I think I would like to check it. I will give you the percentage of traffic against the reduction but I would like to check the figures more carefully.

Mr. HAHN: Mr. Gordon, instead of having the information I asked for looked up now you could have it sent to me. I do not think it concerns too many others.

Mr. GORDON: I shall be glad to.

Mr. CARTER: This morning we were discussing the increase in freight rates and the competitive areas over the system. I maintain that Newfoundland was one of the areas where there was very little competition and where the maximum benefits could be obtained from the increase in freight rates. I made a statement in which I said that since confederation there has been a tremendous increase in freight coming from the mainland to Newfoundland which I felt increased perhaps several times over and there had been a corresponding decrease in freight coming from other markets of the world. Mr. Gordon, I think, answered my first statement about the increase in the traffic from the mainland, but I think he was a bit sceptical about my second statement to the effect that there had been a decline in the freight coming into St. John's from the other parts of the world. Since the committee rose this morning I have learned that while there has been no improvement in the freight handling facilities at St. John's the number of longshoremen have decreased since 1949 from 2,100 to 1,100 and a good many of these 1,100 are employed in handling freight that also comes from the mainland of Canada. I should put that on the record.

Mr. GORDON: That is an interesting figure but we should also keep in mind, when talking about competitive rates, the fact that we are able by quoting competitive rates to retain volume of traffic on the railway and without the preferred areas it would injure our ability to carry our traffic at a much lower price than otherwise would happen. Remember all our rates are compensatory to the extent that we quote a competitive rate at which we are able to handle that traffic on the railways and the profit margin we make on that traffic has a direct impact on the actual rates we would have to have otherwise so that all areas really get the benefit of our ability to compete and get some margin of profit.

Mr. CARTER: My point was that when it comes to handling Newfoundland freight the amount of competition is rather a negligible factor. I still do not know whether or not you agree with that.

Mr. GORDON: It would seem to me we are talking about competition and you must be getting better and cheaper service from the railway or else your competition from water would be greater. We only haul traffic by competition. If stevedoring has reduced to the extent it has it must be that receivers in Newfoundland are finding it cheaper to bring their imports in this way than by ship.

Mr. CARTER: I would be inclined to think it was the other way around. There is such a shortage of shipping that that makes the rates higher than they would be.

Mr. GORDON: Then why is there a shortage of shipping? If shipping were profitable you would find people glad to build ships. As soon as it becomes unprofitable ships go out of business. That is what has been happening here.

Mr. HAHN: With the elimination of any of this competition, whether water or truck competition, isn't it the case that the rail rate remains constant and the agreed charges continue in effect so that the district does continue to have the benefit of it in places where you have had agreed charges and they are now eliminated.

Mr. GORDON: I suppose you are leading to the suggestion that the railway will drive competition out of existence and having done that increase their rates?

Mr. HAHN: That is a sound conclusion.

Mr. GORDON: It just is not so. I wish my life were as simple as that. I would do it in a minute if I could do it. We would still have to be competitive because the minute we were not, back would come the competition.

Mr. HAHN: Are any of the charges lower than the actual cost?

Mr. GORDON: No. We have to certify that every agreed charge is compensatory. On an application for agreed charge anybody can appear before the board and challenge it. We have to prove that.

Mr. HAHN: Are you required to keep any profit above cost?

Mr. GORDON: No. As long as we are able to show it is compensatory and can satisfy the board then it is satisfactory.

Mr. HAHN: How can you do that and at the same time say, as the committee heard in the report last year, that you cannot establish the exact cost from point to point?

Mr. GORDON: We can establish the cost in a specific case any time. We have to satisfy the board.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Can you give us a figure for gross freight revenue had the increases in effect at the end of the year been in effect throughout the year?

Mr. GORDON: Your question is: If we had had a recent increase in effect all during the year 1956, what would the result be?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): That is right, sir.

Mr. GORDON: I have not got that figure here, no. I can get it for you, but I do not happen to have it available here.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): To put it another way, because you might just happen to have it under your finger, do you know what the net addition to your revenue is?

Mr. GORDON: Yes, I can tell you that.

Hon. Mr. MARLER: That is the same question.

Mr. GORDON: I thought Mr. Hamilton was asking a theoretical question; if you had had a freight increase for the whole of 1956, what would your result have been.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): That is right.

Mr. GORDON: The second question, as I understand it: how much increased revenue did you get in 1956 as a result of increased freight rates.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): No, I was merely giving a little twist to the first question in the hope that it might make available an answer.

Mr. GORDON: If it is the same question, my answer is the same: I have not got it just now. I can get it quite easily, but I will have to telephone Montreal.

Mr. JOHNSTON (*Bow River*): Is it contemplated that with the completion of the St. Lawrence seaway, it will have an effect on freight rates in central Canada?

Mr. GORDON: That will remain to be seen. It will depend entirely on the competitive rates that develop at that time. I would think that it would, just expressing an opinion, but I cannot be precise about it. It will mean more water transportation, but it will depend on the kind of traffic that develops under the influence of the St. Lawrence seaway. It will depend also on the tolls that are charged on the seaway, and that will be the main competitive factor.

Mr. JOHNSTON (*Bow River*): That could materially affect the freight rates, particularly in central Canada, could it not?

Mr. GORDON: It depends on what the competition is going to be. Their costs will be subject to the tolls. I do not know what they will be. But, in due course, with the St. Lawrence seaway developed there will be all sorts of industries develop. Some of them may not be able to stand the slower movement of goods by water, and we may still find that the railway is competitive. It depends on an appraisal or assessment of the competitive factors involved.

Mr. JOHNSTON (*Bow River*): But, are you anticipating that there might be a forced decrease in freight rates in central Canada because of that?

Mr. GORDON: I could not answer that question.

Mr. JOHNSTON (*Bow River*): I know it is difficult to forecast.

Mr. GORDON: I have expressed the opinion many times that, in a short run, the St. Lawrence seaway will have a very definite impact on the rail traffic—that is, an adverse effect, but I have also expressed the opinion that, over a period of years, as the use of power and other things, produces the industry that is expected, as a result of that development, there will be new traffic coming up, to such an extent that the railways will not be too badly affected. But, I was looking in a crystal ball, and I cannot be precise about it.

Mr. JOHNSTON (*Bow River*): There will be no guarantee that freight rates in western Canada and the Maritimes will not be increased as a result of it?

Mr. GORDON: It depends on so many factors; are you going to be able to control wages, are you going to be able to control other prices. Remember that the freight rate is a product of cost, and cost only. It is a product of our cost, and by the same token, as I have said many times, in specific instances, the question of competition arises.

Mr. JOHNSTON (*Bow River*): Of course, those of us in outlying areas such as western Canada and the maritimes have to be quite conscious of what the result is going to be because it affects us materially.

Mr. CARTER: Do you have any charts, Mr. Gordon, or any graphic descriptions at all showing the relative pressures of competition in various sections of the system, with different kinds of traffic?

Mr. GORDON: There are all sorts of ways of presenting that. I find that very difficult to answer. We keep records, of course, that show where new highways are and trucking develops. When you say, what is the impact, I do not know how you would measure it. I do not know how you would chart it.

Mr. CARTER: You were saying this morning that when increases are granted in freight rates, you know that there are certain areas where you, perhaps, will not recover anything, and others where there may be two per cent, and perhaps three per cent. Do you have a map showing that detail in the different areas?

Mr. GORDON: No. What we do have are very careful records of what is competitive traffic and what is not. That can change very rapidly. We have to deal with practical facts every day. It is our job to keep in touch with the traffic movement, and if we find there is some traffic, that has been moving by rail, and suddenly we do not get it, we start looking around for the reasons. We try to anticipate. When we see that there is truck traffic competition developing, we immediately get after that shipper to see in what way we can hold that traffic on the railway. The best weapon we have had for that is the agreed charge.

Mr. CARTER: This morning you took exception to the phrase "central Canada" which Mr. Johnston used when referring to the pressure of competition.

Mr. GORDON: Yes.

Mr. CARTER: You maintain there was pressure of competition everywhere?

Mr. GORDON: Yes.

Mr. CARTER: I was just wondering if there was some sort of a diagram, or some sort of a graphic representation of that, so that you could look, and at a glance see that here it is high, and you have got no recovery, and that in another area you get five per cent.

Mr. GORDON: I think that would be awfully difficult to produce, because you would run out of colours as to the degree of competition. I think that would be a pretty mixed up affair. But, you see in one area you have water competition, in another area you have truck competition, and there are many different kinds of trucks, and different types of trucks.

Mr. CARTER: I do not think we are concerned with the kind of competition, but the effect of it.

Mr. GORDON: Take Newfoundland as an example. Your competitive position will change if, as and when you get the Trans-Canada highway through, presumably.

One way of looking at it from the railway point of view; we have to think very carefully about the expenditures, the capital investment involved, because of the situation that in X number of years we are going to meet highway competition.

Mr. CARTER: If we had a standard gauge we might be in a better position.

Mr. GORDON: That is questionable. There is a very wrong impression that a narrow gauge railway is by definition an inefficient railway. That is not so. A narrow gauge railway can be just as efficient, if not more. In the peculiar circumstances of Newfoundland, and the peculiar circumstances under which your railway was built, in the matter of grades, curvatures, etc., a narrow gauge is a more efficient railway than a standard gauge would be. That is why I have said before, if the proposal were to build a standard gauge, we would never build a standard gauge on the same right-of-way as the narrow gauge is on. You would get a different idea about curvature, gradings, and everything else.

Mr. CARTER: Mr. Gordon, following that thought, the importers in Newfoundland, say importing fruit: in Halifax they could have a carload of bananas coming up from the southern states, and coming up from Halifax. If we had a standard gauge in Newfoundland, that loaded car would come right on through to St. John's.

Mr. GORDON: Yes.

Mr. CARTER: Now it goes to Sydney and has to be broken down, and put into a ship, and then has to be taken out of that and loaded into a narrow gauge car, and the handling costs are terrific. We cannot take advantage of purchasing in bulk, and in large carload lots like the people on the mainland can.

Mr. BYRNE: It is no worse than a monorail.

Mr. GORDON: I think all I can say on that point is that every area in Canada has its difficulties, both in terms of geography and otherwise. You just have to live with the facts of life more or less. If that is a handicap, and I do not know how severe it is, then it is one of the things you have to live with. I am sure there are other areas of Canada that feel that they have got handicaps too. It all tends to average out in the market place.

Mr. CARTER: We do not feel that we have to live with a handicap if we can have it changed.

Mr. GORDON: If we get into that, I can quote you a great number of improvements and concessions that have been granted to Newfoundland in the matter of freight rates since Confederation, and a very substantial reduction of freight rates.

Mr. CARTER: They do not seem to do us much good.

The CHAIRMAN: Shall the item carry?

Item agreed to.

"Passenger Traffic and Revenue."

Mr. KNIGHT: Mr. Chairman, I would like to ask a question or two, and then, if I might be permitted, I would like to follow along with what I want to get at. In section 11: "passenger revenues rose by $1.6 million to $45.8 million." I have not done the figuring for the percentage, but I would like to ask Mr. Gordon if he could give us a comparative figure that the competitor had in that regard last year, because I do want to make some comparison between the two services on the two lines in a certain direction.

Mr. GORDON: As I said earlier, the Canadian Pacific Railway's annual report is not released yet. It should be released very soon, but I have not got that report to make comparisons.

Mr. KNIGHT: I did not expect an exact figure. As a matter of fact, an estimate would do for my purposes. I was just wondering if their improvement had been greater or less than the Canadian National Railways.

Mr. GORDON: I have some figures here that have been deduced, as I might say, from statistics, but I do not think they are sufficiently reliable for me to quote them. I would rather wait for the C.P.R. report.

Mr. KNIGHT: We could leave it out in that case.

I have two points of criticism, and perhaps I should press that criticism by saying that I make them in a most friendly spirit, and with all the best wishes for the success of our own road, as I call it. Going on with that same paragraph, revenue from other passenger services, including sleeping, diner and parlour car sales showed an improvement of 4 per cent, amounting to $10.6 million. Could Mr. Gordon tell us to what extent that improvement has been due to the dining car services? This is a criticism he may or may not remember I made about the railroad for a number of sessions, because they refused or hesitated to provide people in the coaches, particularly, with food at a price which they could afford to pay. I personally have been delighted with the success, or what I think must be the success of this item from the point of view of the service to which it provides the public. I say that it must be successful because you are putting on six new cars.

Mr. GORDON: If you would turn to page 30 of the report, Mr. Knight, you will find a table which gives the break-down in detail of all the passenger services, and you will see two years in comparison there. Have you No. 30 before you?

The CHAIRMAN: On the left hand column of page 30.

Mr. GORDON: Under "Operating revenue" you will find the detail of all the main headings and, in the various items, you will find sleeping and parlour car and dining and buffet cars, $4,021,755 as compared with $3,895,150; that is the dollar result. We have served a great deal more meals in order to get that, of course.

Mr. JOHNSTON (*Bow River*): That is the dining car and the buffet car combined, is it?

Mr. GORDON: Yes.

Mr. JOHNSTON (*Bow River*): Do you have them separately, Mr. Gordon?

Mr. GORDON: On page 31 of the report you will also see the expenses of those services.

Mr. JOHNSTON (*Bow River*): Separately or otherwise?

Mr. GORDON: Under "Miscellaneous operations" you will see for dining and buffet services $5,611,809.

Mr. KNIGHT: I take it as long as the pages are referred to, we can find them in the record. However I want to make what criticism I have and, under "competition" on page 21 in paragraph 78, it says "Underlying these various projects is one common objective: to place the company in a better position to meet the reality of growing competition and the pressure of rising costs." I am particularly interested in this last sentence: "To this end, the C.P.R. is reappraising its pricing practices and the type of service and equipment the public wants and is prepared to pay for."

Now I wish to raise two matters under that general heading; one is in regard to dome cars and the other is in regard to speed, or the lack of speed, with which the C.N.R. reaches Vancouver, as compared with its transcontinental competitor.

Now I know Mr. Gordon's previous answers and I have never understood the one about speed. We remember that originally Mr. Gordon called one the greatest myth in railroading—which was that the C.N.R. could save 10 hours or something like that into Vancouver. Well, it has saved 10 hours into Vancouver and I am particularly anxious that the road should be successful—and that it should not be termed a second-class road. I know nothing about railroading; I know nothing about railroading finances, but I do keep my ear to the ground, like all other politicians and, if there are two things that I hear on my journeys back and forth across the country, they are these: "why should the C.N.R. trains not have dome cars to meet the competition of the C.P.R.? That was the reason for the original question as to comparison; and the second thing I hear, is: "with the advent of diesel engines why can we not get to Vancouver from Montreal as fast as the C.P.R.?" I do not mean to say that we should get there at the same time, but I do think we should get there in the same time.

Now these things may not mean very much to the management of the railroad but I can assure you that they must mean something to the general public, if the things that I hear are true. It is common talk: "Oh yes, the C.P.R. gets most of the trade—it is faster and it has those dome cars". Now in the light of this avowed object of the C.N.R. on the page to which I have referred: namely, "to this end the C.N.R. is reappraising its pricing and the type of service and equipment the public wants and is prepared to pay for", if I am any judge of the public opinion with which I have been in contact, this is the type of service which I think the public would be prepared to pay for. Also this, I think, would do away with the idea which a lot of people seem to have, that the C.N.R. is a kind of second-hand job as compared with the C.P.R. service. I would like Mr. Gordon's general comment on those two matters.

Mr. GORDON: I would like first of all, if I may, to correct one statement. When you refer to the subject of a myth in relation to the idea that we could not meet each other's time, the myth was never that. The myth to which I referred, and which is one I have denied again and again, was that there was an alleged agreement existing between the C.N.R. and the C.P.R. That is the myth. There was never any agreement in respect to the C.N.R. having to take a longer period of time than the C.P.R. So I disposed of that; and secondly, we have in the last few years been in a period of great technological change which changed our course in the buying of equipment, and also we became engaged in the matter of making our diesel operations applicable to our transcontinental services. We have progressively improved in our speed but, remember, speed in a railway is not the only aspect of the matter. If we are going to get speed, we have to consider its impact on the roadbed and the comfort of the passengers, the servicing of the trains and all sorts of things. So that, while two or three years ago, we had the equipment which could produce the speed, we did not have the roadbed and we have gradually been improving that. I am very glad to be able to tell you—there is no need to make comparisons year by year—but, as of this year, during the season starting April 26, our time between Montreal and Vancouver, as an example, will show that we—

Mr. KNIGHT: I think it is on page 21 at the top where it gives the shortened distance time of forty minutes.

Mr. GORDON: Well as of April 26, 1957, this year, our run from Montreal to Vancouver will be 10 minutes faster than the C.P.R.

Mr. KNIGHT: Well that is something.

Mr. GORDON: But on the other hand the run back from Vancouver to Montreal, using the same comparison and sticking to Vancouver and Montreal, the run from Vancouver to Montreal will be 50 minutes slower. Now then, you have to keep in mind that another thing which is important to the railway is mileage, and it is a fact that our distance from the same places, Montreal to Vancouver, on the C.N.R. is 2,924 miles while on the C.P.R. it is 2,881 miles. In other words, the C.P.R. is 43 miles shorter in the over-all route, but at various places along the line we do get faster runs than they do.

Between Montreal and Winnipeg is a good example, and Toronto and Winnipeg, we beat the C.P.R. time quite considerably. We have a run from Montreal to Winnipeg with the new route in here, which will be 2 hours and 35 minutes faster than C.P.R. and as between Toronto and Winnipeg it will be 1 hour and 35 minutes faster. But, by the time we reach Vancouver, following our lines, with the different routing times and so forth, the servicing of intermediate points, and the number of stops and all that sort of thing, although the run from Montreal to Vancouver will be 10 minutes shorter, the run coming back will be 50 minutes longer.

Mr. KNIGHT: If there was any real reason in my mind as to why the C.N.R. speed should equal the C.P.R. speed, I think it is because I find it hard to believe that 40 minutes of the return journey could not be made up in a distance of that kind. As far as equipment or engines are concerned, on most of the journeys that we make, we loaf along and, outside of my own city, we wait for 10 or 15 minutes until the clock says it is time to go in.

Mr. GORDON: All right, I will tell you some of the railroaders' problems if you want to hear them. I am going to be perfectly frank about this. On the road back, you have to remember that we have an obligation to service points at convenient hours. We believe it is good business in certain of our intermediate stops to arrive there at a certain time, so we deliberately adjust our schedule for that purpose. Now, that may or may not be good business, I do not know. We feel that way about it, but perhaps our competitors do not. If you look up their schedules you will find that there are some rather inconvenient arrival times. Also we have in mind another factor: We are very anxious to keep the Ottawa-Montreal run to a flat 2 hours because that is a good competitive run vis-à-vis the airlines and there are very few places where we can really compete with the airlines. But, we have found that as between Ottawa and Montreal our service is a competitive service with the airline. We have had quite a considerable increase in traffic since we kept to that two hours flat run. Now, when we start from Montreal it is very easy for us to make that two hours because this the first part and there is nothing to stop us. It is a non-stop run on the Super-Continental between Montreal and Ottawa and we are usually on time; around two hours. But, on the return journey we start from Vancouver and taking into consideration all the hazards that come with a long trip, we deliberately keep a cushion of time in there, so that we can get to Ottawa on such a basis that we will make it a two hour run from Ottawa to Montreal. We worked on that for the purpose of maintaining the Ottawa-Montreal schedule.

Mr. KNIGHT: The other question was about dome cars; perhaps you could comment on that.

Mr. GORDON: The point I am trying to make is this: this trans-continental run with diesel engines and so forth, is still very much in the experimental stage. We will probably improve it as we get better roadbeds and spend more money and so forth but, we have begun to ask ourselves the question as to whether or not this is worth while. We have been making very careful traffic analyses and we find that a relatively small percentage of our passengers actually make the through run from Montreal to Vancouver; only about 10 per cent of our passengers actually get on the train at Montreal and go to Vancouver. We get a much larger percentage between this city and that city, so we are beginning to wonder now, and we are having tests made, as to whether or not it is really good business to have this fetish about time lapse between Vancouver and Montreal. It may be that it is more sensible to speed up our inter-city trains and to break up the trains, rather than having just one train, to ensure a faster inter-city run. We believe this might be a more effective type of competition against the airline; in fact in some cases we have found it so already.

I have said publicly and I repeat, the future of the airline is in the jet plane. Is is going to be in the long distance haul, and they will just beat the living daylights out of us because we cannot compete with them there. But we are not licked because we have a place in the picture and it may very well be that there will be a heavy accent on the fast train journey between cities where it is not economical for the jet plane to operate. The jet plane, by the time it rises in Montreal and gets to a sufficient height to be efficient—because it has to get pretty high in order to be efficient—finds it is time to come down again in order to land at Toronto. It has hardly got up there before it starts coming down. Now, as I said, we feel that in these inter-city connections, in the urban areas, is where our future is. However, as I say, it is all the subject of analysis and testing which we have to do in order to determine just what our policy should be.

Mr. KNIGHT: Well this is my third question but perhaps it could be inserted here before we start talking about the domes. Do you call these things line railers?

Mr. GORDON: Railiners.

Mr. KNIGHT: You are going to establish one from Saskatoon to Regina, is that correct?

Mr. GORDON: That is under examination now—yes, we shall if we find the economies will pay for it; we have a lot of places under test for these Railiners or self-propelled Budd cars, as we call them. We have a certain number on order and I think later on in the budget we will come to that.

Mr. KNIGHT: Is there anything projected in that way now?

Mr. GORDON: We have a run Regina-Saskatoon-Prince Albert which is now definitely under examination and while I do not like to stir up too many speculations on it, I think that is one of the lines that will probably measure up.

Mr. KNIGHT: Is there any such project under review as between Saskatoon and Calgary?

Mr. GORDON: Not as between Saskatoon and Calgary—no; we have it between Calgary and Edmonton now.

Mr. KNIGHT: Well something ought to be done between Calgary and Saskatoon because it is losing business on that line.

Mr. GORDON: Well let me put it this way: that wherever we can establish to our satisfaction, whether or not we will establish it to the public's satisfaction, but wherever we establish it to our satisfaction that there is enough traffic to justify the operation of a Railiner or any other form of passenger train, then we are in the business to do it.

Mr. KNIGHT: Well to go back then, and then I will finish, to refer to the dome cars again, do you consider that the fact that the Canadian National Railway have not had dome cars has lost business which may otherwise have gone to it?

The CHAIRMAN: Mr. Gordon explained a couple of years ago that domes were considered to be a sort of fad among the railwaymen which would wear off. Whether or not that has been proved to be the case, I do not know.

Mr. KNIGHT: But these questions of mine are largely directed to him because of the railwaymen and because of what I think is an added morale. I would like to see them on the C.N.R.

Mr. GORDON: Let me say this, the question of whether or not to use dome cars is, after all, a matter of business judgment. We are buying the cars which we think will attract the public and give us the volume of business. You must remember that there are a number of things in connection with dome cars which may not occur to you. In the first place the dome car seats do not produce revenue and, in order to justify their use, you have to demonstrate that they will attract new business and not be considered as replacing just ordinary standard equipment.

Now, in connection with our policy, as I think I said before, we feel that competition does not mean doing just what the other fellow does. That is not competition. It may well be that if you had the C.P.R. here before you, you would question them as to why they used dome cars—whether or not their dome cars were competitive versus our standard equipment. We have the type of equipment that is equal in comfort and utility to any type of equipment on the North American continent.

Now there may be, as you seem to feel, that there is a glamour appeal in the dome car. That is, I suggest to you, with all respect, a superficial judgment, because you do not know the figures. I would be more satisfied with your statement if I had the C.P.R. figures. But I have not seen them so I do not think that the assumption that the dome car has brought them business is correct.

Mr. KNIGHT: Well I do not think that my question was put in the form of an assumption, Mr. Gordon. What I said was in the form of a question, I think. I am not interested in dome cars at all, personally, if I may say so. I am simply reporting what I hear all over the place. People say "Well, I am going out to Vancouver and I am going C.P.—after all they have the dome cars." There must be something about this glamour appeal.

Mr. GORDON: Let me put it this way—our considered business judgment is that extra attractiveness of the dome car is not sufficient to justify from a traffic potential point of view the extra cost involved. We feel we are doing just as well from a traffic point of view with the type of equipment we have subject to one exception. It may be that in going through the mountains we may do something about it.

Mr. KNIGHT: You will forgive me if I say that you gave me pretty much the same sort of answer when we urged dinette cars.

Mr. GORDON: I would challenge you on that. Fnd the record where I said that. I would like to read it. I do not think I ever questioned your statement on that.

Mr. KNIGHT: Well, perhaps I am wrong.

Mr. JOHNSTON (*Bow River*): I would agree with Mr. Gordon so far as the dome cars are concerned. I come down here mostly by Canadian Pacific and I travel quite a lot. I do not think that dome cars are as attractive as they used to be. You do not find as many people in them these days except when going through the mountains.

Mr. GORDON: That is true. There was some excitement shown in the beginning but from the standpoint of day in and day out, we do not feel as a matter of business judgment that in the long run it pays off. I am not trying to say that we are perfect, but that is our judgment.

Mr. JOHNSTON (*Bow River*): There is a Railiner which runs between Calgary and Edmonton. I doubt if it is a paying proposition for two reasons: first, that your mileage is much longer than that of the Canadian Pacific, and second, that the crookedness of the line itself is such that you pretty well have to use a life preserver when going around so many of those curves. I do not know if anything can be done about it, whether it would require a straightening of the road, or whether it would be profitable or not; but when you compare the Railiner with the Canadian Pacific equipment, it does not begin to meet up to it.

Mr. GORDON: We put on one Railiner in 1955 and as a result of our experience we have recently put on two.

Mr. JOHNSTON (*Bow River*): It is true that I went on it on a day when the strike was on, on the Canadian Pacific and it was crowded.

Hon. Mr. MARLER: That shows how much easier it is to get along without competition!

Mr. JOHNSTON (*Bow River*): The fact of the matter is that it was an extremely rough road, very rough!

Mr. GORDON: We put on a Railiner in 1955 partly as an experiment on the run; and as a result of practical tests we have added another Railiner and there are now two of them running.

Mr. JOHNSTON (*Bow River*): What is the difference in mileage?

Mr. HAMILTON (*York West*): It may be that we had better equip them with seat belts!

Mr. JOHNSTON (*Bow River*): Did you ever ride on it?

Mr. GORDON: On that particular one?

Mr. JOHNSTON (*Bow River*): That would be quite an experience for you.

Mr. GORDON: I have been over that line and I know what you mean. It all becomes a question of cost and how much we can afford to improve the roadbed.

Mr. JOHNSTON (*Bow River*): There is quite a difference in the mileage is there not?

Mr. GORDON: Yes. We do not pretend to be competitive in our passenger traffic between Calgary and Edmonton. It is a matter of degree in how far we should go in providing any service. We ourselves do not feel that we are competitive with the Canadian Pacific in the way of passenger service between those particular points.

Mr. JOHNSTON (*Bow River*): I think, generally speaking, you are right, but as far as services are concerned, especially on the super-continental, I think that the Canadian National Railway services—and I say this advisedly—are better than those of the Canadian Pacific.

Mr. GORDON: That is something I will concede at once!

Mr. JOHNSTON (*Bow River*): I think I said that it was better on the Canadian National Railway than on the Canadian Pacific.

Mr. GORDON: Yes.

Mr. JOHNSTON (*Bow River*): That is what I intended to say.

Mr. GORDON: Thank you.

Mr. JOHNSTON (*Bow River*): Is there any difference between a buffet car and a restaurant car? I understand that the restaurant car is the one where you have a long bar—but I do not want anybody to misunderstand me. Perhaps I should say a long coffee counter.

Mr. GORDON: You are probably thinking of the dinette.

Mr. JOHNSTON (*Bow River*): Yes, the dinette.

Mr. GORDON: The dinette has a long counter like a soda fountain. You get it on the super-continental.

Mr. JOHNSTON (*Bow River*): You do not get it on the Canadian Pacific Railway?

Mr. GORDON: No, they have not got it at all.

Mr. JOHNSTON (*Bow River*): In my experience in travelling on both trains, I prefer the dinette car.

Mr. GORDON: That is typical of the difference in competition. We have the dinette while the Canadian Pacific has the dome. Which one is right? We think the dinette is better.

Mr. KNIGHT: Personally I will take the dinette.

Mr. JOHNSTON (*Bow River*): I think the dinette is much superior to the service you get on the buffet car of the Canadian Pacific. Where they have the dome, there are several points of view. On the Canadian National Railway you have two. All our cars on the Canadian National Railways do not have long counters.

Mr. GORDON: No. We have only a certain number of them.

Mr. JOHNSTON (*Bow River*): I thought they were buffet cars, but you say they have one or two tables?

Mr. GORDON: Yes, the parlour buffets. Generally speaking there are four kinds of dining cars set up, there is the dinette where we have this long table like a drug store soda fountain where you can sit and give your order, and receive your meal as you order it. Then there is the regular dining car where you get table napkins and fine silver and whatever, and pay three times the price. That is for people who travel on an expense account. Thirdly, we have the parlour buffet car which is half and half. You sit on parlour car seats and you go into an enclosure and there are tables there. They are used mostly on runs where we offer breakfasts. And finally, we have a new car now which we have developed and we are very proud of it. We made it ourselves. We have two of them and they are to run between Montreal and Mont Joli. They are called cafeteria cars. It is a new car. The passenger will come in and pick up his tray and go past a counter just like in a regular cafeteria, and he will order his meal and go and sit down. We hope we have struck something there which will appeal to the public. It is an experiment that we are putting on the run between Montreal and Mont Joli this summer, or even before that. In fact, it is in test operation now.

Mr. JOHNSTON (*Bow River*): How do you find the profits compared as between the dining car and the buffet car? That is the smaller one than the main dining car?

Mr. GORDON: I will have to correct you. We do not make a profit on any of them. But if you would like to have the different percentages of loss, I can provide them for you. None of our dining cars is profitable.

Mr. JOHNSTON (*Bow River*): What are the figures?

Mr. GORDON: We figure that the average loss on the meals served in a dinette car last year was about 40.7 per cent. This year our average expense—the average expense for the meal—was $1.24; and we lost in serving it about 36 cents per meal. If you look at the regular dining and buffet cars bracketed together, our loss was 58.1 percent while the average cost per meal—the average expenditure—was $2.79; and the average loss per meal was about $1.03.

Mr. JOHNSTON (*Bow River*): You are speaking of the buffet car?

Mr. GORDON: The dining, cafe and buffet cars are rolled together. We lost $1.03 on each meal we served there, while on the dinette we lost only 36 cents.

Mr. KNIGHT: The liquor account is kept separate, is it not? It is not mixed up with the dining car account?

Mr. GORDON: No, it is kept separate.

Mr. FOLLWELL: May we have a report on the liquor account?

Mr. GORDON: I have not got it. It is presented here as beverages, lunch, cigarettes and so on. I have not got the actual figures. I can say that our sale of beverages does show a small profit.

Mr. FOLLWELL: Do you serve liquor in all the provinces now?

Mr. GORDON: It varies between provinces. I have a list of them here. We have not got it in Alberta. In Nova Scotia we have beer and wine only. In Quebec all alcoholic beverages. In Ontario there are two types of licences and it varies between districts. It is rather complicated, but generally speaking you can get a drink in Ontario.

In Manitoba legislation has been enacted but I do not think we have got it in force yet. It is permitted now in Manitoba.

In British Columbia the sale of alcoholic beverages commenced on May 24, 1954.

Mr. HAHN: Hear, hear!

Mr. GORDON: And as far as I can see here I find that the prospect of selling liquor in Newfoundland has been explored. We can do it if we want to but we do not think it is practical in Newfoundland.

Mr. CARTER: Not until we have a standard gauge.

Mr. GORDON: In Prince Edward Island the nature of our operation there does not lend itself to the sale of liquor. There is no time really.

On New Brunswick, the comment is that the prospect of selling liquor there is being closely watched.

In Saskatchewan and Alberta we understand there has been a very close liaison between the provincial authorities of Manitoba, Saskatchewan and Alberta, and we do expect that whatever is worked out in one province will have an influence on the others. That is still pending and we have not anything on it yet.

Mr. FOLLWELL: Do you anticipate the sale of beverages will provide enough to absorb the loss on your meals?

Mr. GORDON: I doubt it very much. But as to serving liquor on trains, we are strongly in favour of being permitted to dispense liquor on our trains. For example, one reason is that drinking is much better controlled that way. The use of liquor on our trains is one of our continual headaches. And when going through areas where we cannot serve liquor we find all sorts of trouble. People will have their own bottles and you cannot control it. We all know that. But if we dispense it ourselves, we find it much easier to control, and we find that people are much better behaved and that it is a better show all the way round.

The CHAIRMAN: Is the item "Passenger traffic" agreed to?

Mr. HAHN: On the question of Railiners, there is a pool train running from Ottawa to Toronto. I take it that it goes on Canadian Pacific track. Is that right?

Mr. GORDON: Ottawa to Toronto? Yes, that is right.

The CHAIRMAN: Part of it does.

Mr. HAHN: I was going to suggest that it is probably the roughest track in the world on which to run a cafeteria.

Mr. GORDON: Are you talking about the line between Ottawa and Brockville?

Mr. HAHN: I do not know. I am usually in bed, but I know it is a rough track.

Mr. GORDON: You are talking about the track through Smiths Falls to Peterborough on the night service?

Mr. HAHN: Yes. And coming to the Railiners, I was interested in your remarks because I think you are probably very light in suggesting that inter-city traffic will be obtained by trains, or recovered by trains, and that air traffic will be maintained otherwise. And in reply to Mr. Johnston you indicated the line from Calgary to Edmonton. I know that track pretty well too and I would say that it probably pays because the towns along there are quite large, most of them, and that would add to your revenue. But in the lower mainland of British Columbia—for example Chilliwack—is any consideration being given to running a Railiner from Vancouver up to Chilliwack?

Mr. GORDON: I do not know. We think all these points could stand a survey. The real point is not the question of size. The real point is: what are the incentives for people to travel? There are definite potentialities between Calgary and Edmonton because they are greatly intermingled as between the oil companies head offices and the field forces, and I am sure there is a big incentive for travel between those areas. Our surveys are all directed to discovering two things: one, whether by providing a Railiner we can modify our operating costs and meet expenses, and two, whether by being able to provide more and fancier service we can attract a new type of traffic.

Mr. HAHN: Must the Railiner be operated on a whole day basis in order to make it economically profitable?

Mr. GORDON: I do not know what you mean.

Mr. HAHN: It takes over the run from Calgary to Edmonton?

Mr. GORDON: The only thing we are speaking about in the matter of its economics is how many people will travel on the Railiner. We will put a service on which will attract traffic.

Mr. HAHN: That is true, but when we had a discussion of commuter services you indicated that if you were able to run them continually, it would help to carry the cost.

Mr. GORDON: Yes.

Mr. HAHN: That is the point I am trying to get at.

Mr. GORDON: Yes. Mileage has a bearing on it. We can charge a fare from Calgary to Edmonton which would be economic, but as to the commuter fare, I do not know. We now get a minimum of 25 cents for commuter fares. At one time they were as low as 10 to 15 cents when I started looking at them. I think we have a minimum fare on commuters now. Most of those commuters' fares are very low.

Mr. HAHN: What distance would they run?

Mr. GORDON: 15, 20 or 25 miles.

Mr. HAHN: They do not even compare with bus prices.

Mr. GORDON: We maintain that that kind of traffic does not belong to the railway at all; it belongs to buses. The railway is not for that kind of traffic. It is built for long haul big volume traffic. That is the kind of transportation tool the railway is.

Mr. FULTON: With respect to your passenger service into Central Station in Montreal: do you stop all trains outside the station to change to electric locomotives?

Mr. GORDON: On passenger trains?

Mr. FULTON: Yes.

Mr. GORDON: While there are some exceptions at Turcot the routine is pretty much to change to electric.

Mr. FULTON: I can understand that would be essential when you had steam locomotives with a lot of smoke, but now that you have diesels is the need for the change alleviated, so that a saving in time could be made?

Mr. GORDON: We would like to think so, but there is still an offensive, though not a dangerous odour, from diesels, and in bringing them into the station itself we found trouble. If the train is long enough to keep the engine clear of the enclosed area in the station we back in and leave the locomotive outside. If it means that the locomotive would be in the enclosed area we would have to change. It means a delay of about ten minutes on the change-over.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Mr. Gordon told us last year in 1954 the average revenue from all meals served was $1.70 and in 1955 it was $1.40. Have you a comparative figure for this year?

Mr. GORDON: Are you talking about 1954?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): 1954 was $1.70 and 1955 was $1.40.

Mr. GORDON: That is right. 1956 on the same comparison was $1.42.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): So that actually despite the increased use of the dinette cars the revenue from meals now seems to be pretty well stabilized.

Mr. GORDON: Yes, but we must remember that unfortunately our average expense in 1955 was $2.09 and in 1956 it was $2.20; so our net is worse.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Your net position would be worse but I gathered from your remarks there was a steady increase in the use of these dinette cars.

Hon. Mr. MARLER: There might be, and still have a higher check.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): The average check was 88 cents I think.

Mr. GORDON: 82 in 1955 and 88 cents in 1956.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): If you find your average overall is holding up as it is I am trying to see whether—

Mr. FULTON: Have the prices of meals not increased?

Mr. GORDON: Yes. Also we are serving more meals. In 1956 we served 348,677 meals as compared to 337,274 in 1955. That is for dinettes. I should give you the total. Our total number of meals for all types in 1956 was 2,426,196 and in 1955 it was 2,419,432.

Mr. POWER (*Quebec South*): What is considered to be a meal?

Mr. GORDON: It includes everything we serve. We do not regard a beverage as a serving.

Mr. POWER (*Quebec South*): A sandwich and a cup of coffee?

Mr. GORDON: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Last year Mr. Gordon was good enough to give us some idea of the increase immediately following the introduction of the Super Continental and the Continental on the trans Canada run. You summarize it by saying there has been a range between 15 and 24 per cent of increase in passengers and passenger revenue. I am wondering what the situation is for 1956 versus 1955.

Mr. GORDON: Mr. Armstrong says he understands the table. I do not understand it, so I will ask Mr. Armstrong to answer the question.

Mr. ARMSTRONG: Referring to the evidence of last year's passenger revenue in the month of May on the Trans-Continental service, in 1955 as compared to 1954, we answered no change. Your question is as to 1956 versus 1955?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Yes.

Mr. ARMSTRONG: May, 1956, versus May, 1955, shows a 3.2 per cent decrease. June, 1956 versus June, 1955, it was equal. In july, 1956, versus July, 1955 there was an 8.6 per cent increase.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): So that your traffic on the Super-Continental line is still building up and it was not just a temporary surge following the introduction of the Super Continental.

Mr. GORDON: We have been showing increases although some months show decreases. However over all there is a small over-all continuance of that trend.

Mr. FULTON: Your fares as distinct from meals have remained pretty constant apart from on the commuters. I mean your charges.

Mr. GORDON: There has not been any change in passenger fares as such, but there is an average figure here which shows the average revenue per passenger. On page 37 it shows the revenue per passenger was $2.86 in 1956 as against $2.61 in 1955?

Mr. FULTON: What would account for that increase?

Mr. GORDON: It would depend on the mileage and it also means we cut down substantially our commuter traffic. We abandoned some commuter traffic around Montreal and that means we eliminated a lot of small runs which we regarded as losing us money.

Mr. HAMILTON (*York West*): Mr. Chairman, does the same observation in some respects apply to sleeping and parlour car services as to dining services. Are they regarded generally as profitable or unprofitable?

Mr. GORDON: They are not regarded as profitable but they are regarded as a necessary service if we are to get passengers to travel at all.

Mr. HAMILTON (*York West*): I think in Prince Rupert you were interviewed on the question of transcontinental service and as to the matter of air carriers eating into it very badly. What do you say as to the future with respect to setting up inter-city service. Will it still need the same amount of sleeping and parlour car accommodation to handle that type of service?

Mr. GORDON: I might be anticipating a great deal but I think there are several obvious things. One of the attractions to the railway in fast inter-city travel would be to gear it so we would eliminate sleeping services. We would hope to be able to provide coaches on the basis that people travelling would be content to sit up as they do in aeroplanes and therefore we could do away with sleeping and dining services. That would be part of the economies which would justify our services. We could make inter-city service profitable or at least pay its own way. When I get down to specific examples I get into trouble. Take, for instance, a run between Montreal and Toronto. Certainly we would have a day service but we would also need a night service as well. We might eliminate the dining service and get away with only sleeping service. Or we might get the public in a frame of mind, at a price, that they would sit up and not ask for sleeping services. These are things to be experimented with. That is why I used the phrase we are looking to find out what the public is prepared to pay for. If travellers will accept a degree of less comfort, let us say, or not as much luxury at a price then, all right, let us do it; that is my attitude.

Mr. HAMILTON (*York West*): You would also be attempting to improve your schedules at the same time.

Mr. GORDON: That is right.

Mr. HAMILTON (*York West*): Have you anything in mind in connection with that in the development, for instance, of new trains between Ottawa and Toronto. If you were attempting to carry out a program of that kind could you cut down the time?

Mr. GORDON: There is the pool question. We would not be free agents. We have an example between Ottawa and Montreal. We make a no-stop run on the Super Continental between Montreal and Ottawa. It is a question of sharpening up where we feel we can get the traffic.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): As fas as cutting down on cost is concerned, is it not simply a case of relating horsepower to pounds and these new dayliners are still fairly heavy equipment. Have you done anything along the line of a commuter type on the idea of cutting down your poundage per horsepower.

Mr. GORDON: The question of light-weight equipment is one of the most current items in railway circles. We are very closely in touch with various manufacturers along that line. But, it is not just a matter of cutting down weight, you know; because, while several of these manufacturers have reduced the weight of the modern types of cars, the test runs, under actual operating conditions, revealed a lot of situations where the maintenance would be greater. In other words, if you are going to run trains at high speeds, and under the kind of conditions that we have got here, particularly climatic conditions, it is not always the case that light-weight trains are going to be the most efficient, or the less expensive to operate. The pounding, and the wear and tear on the light-weight equipment trains, on services we put them in, is still something to experiment on. So, I just leave the question and say that light-weight equipment generally is very much under test, and under exploration. We have a committee working on that specific thing, whose responsibility it is to appraise all available passenger equipment, with a view to determining the practicability and economics of using selected types of equipment.

Mr. HAMILTON (*York West*): Now, in the future, I can see the change that you might be making between Toronto and Winnipeg, say, where you probably would eliminate the Super train and have merely a local train. What happens if I want to get on at Winnipeg and go to Vancouver, or go to Edmonton, say? Do I have to get off in the morning and get on another train?

Mr. GORDON: That is the kind of thing that we are going to have to decide on, as to what the public will do. My own thought, at the moment, and I speak subject to the results of an intensive study that is far from complete, is that if we are going to run fast inter-city trains, then we may have to give up the idea of continuous trains. In other words, you may have to go from say Winnipeg to Saskatoon, and then it may be that if you want to go on, if you are a through-passenger and want to go to Vancouver, you have to wait. Because, as I say, our percentage of through-passengers from Montreal to Vancouver is very small, indeed. It is well to consider and look south of the border. You cannot go across the United States on one railway. You have to change from one railway to another, sometimes at a considerable inconvenience, because you are dealing there with individual railways. But, I would not like to leave the impression with the committee that these inter-city fast runs, I am discussing now, are an immediate prospect. I am looking to the future in expressing an opinion. That may well be a sort of evolution of the passenger service on Canadian railways.

Mr. FULTON: But it could well be the pattern within the lifetime of equipment that we have now?

Mr. GORDON: It could be.

Mr. CARTER: Mr. Chairman, I come back to these different kind of dining cars; dinettes, and cafeteria cars. Is it feasible at all to have that type of dining car on a narrow gauge railway?

Mr. GORDON: Oh, yes, it is. There is nothing about the construction of those cars that would not fit into a narrow gauge railway at all, with perhaps a qualification about the diner, or the dinette, because of the width of that car. I do not know if we have enough width. It is about ten inches less, and we would have to study that. But, there is no mechanical reason that a car could not be built for a narrow gauge railway.

Mr. CARTER: Yes, and then to come back to the Railiner, do you know what concentration of traffic you must have to make that type of transportation profitable?

Mr. GORDON: Yes.

Mr. CARTER: Say between Argentia and St. John's, would that be a branch all by itself?

Mr. GORDON: I would not be able to answer that just now, but it could be. We would have to take a specific case and examine it in terms of our cost of operation, and the potential traffic there, and we could come up with a figure all right. Incidentally, I should perhaps remind you that in the report, I think I made reference to the appointment of a special committee of our senior headquarters and district railway officers. That is paragraph 70. These very questions are very much in their hands now, as to what should be done in regard to all the technical aspects of the Newfoundland transportation situation to bring Newfoundland on parity with the type of service on the mainland.

Mr. CARTER: When do you expect that report to be finished?

Mr. GORDON: It is very much in process now. It may be on my desk by the time I get back, I do not know. It depends on how fast the committee is going to work, but it is very current right now. It may even be on my desk now, I don't know. I have not got down to the bottom of the heap for a few days.

Mr. CARTER: Do you have the number of passengers a month broken down, by division, at all?

Mr. GORDON: No, I do not think we have. I do not recall that. I do not think we have that. We could probably give you a statement covering the originating of passengers, but you see, you get into difficulties. But, in respect of passengers originating we could probably do it.

Mr. CARTER: I am interested mainly in the traffic carried on your coastal boats. Does the same general statement apply, that passengers on ships are carried at a loss too, and the mail service on ships?

Mr. GORDON: Yes, I think that is a further generalization. As you know, the coastal ships around Newfoundland are heavily subsidized.

Mr. CARTER: Yes.

Mr. GORDON: I am perfectly certain you cannot make a passenger service pay.

Mr. CARTER: I was thinking that if some were working to capacity all the time, would it be possible to do it?

Mr. GORDON: Perhaps I am making an unfortunate remark here, but, what has developed in modern days is that, human beings have become so accustomed, and are so dependent upon a standard of luxury, that it is quite impossible to provide what they insist upon, and charge a price that will make it profitable. You see it all over the world. The British Columbia coast is another example. The British Columbia coast, where there used to be some very fine ships plying up and down that coast, are practically all gone. They just could not stand up against modern requirements.

Mr. CARTER: As you know, there has been considerable complaint because the William Carson is plying between Sydney and Argentia?

Mr. GORDON: Yes.

Mr. CARTER: And not carrying passengers?

Mr. GORDON: Yes.

Mr. CARTER: She is operating at a deficit now, is that right?

Mr. GORDON: Yes.

Mr. CARTER: Is it correct to say that if she were handling passengers, there would still be a greater deficit?

Mr. GORDON: Running between North Sydney and Argentia?

Mr. CARTER: Yes.

Mr. GORDON: If we were to establish, and if we were to spend the money that would be necessary to provide passenger facilities at Argentia, and charge ourselves with the interest and depreciation on the capital investment, I would think that we would show a substantial loss, a substantial additional loss.

Mr. CARTER: Yes, but without doing that, with just the existing facilities?

Mr. GORDON: Even with the existing facilities you are charging a lot. Although that is not a fair statement, because the William Carson, if it had been built solely as a freight ship running between North Sydney and Argentia, the result may be different. But, remember, the cost of operating her arises out of the fact that she is built as a passenger cargo and freight ship. At the moment she is only performing half of her potential. I should not say "half", but part of her potential.

Mr. CARTER: Yes, but she is carrying the most lucrative, the most profitable part of her traffic when she is carrying freight.

Mr. GORDON: I think that would be a fair statement, yes.

Mr. CARTER: If she carried passengers as well, she would be losing money on passengers, would she?

Mr. GORDON: Yes, I would think so, yes.

Mr. CARTER: She is not losing that now?

Mr. GORDON: She is not losing on passengers, no.

Mr. CARTER: She is operating more efficiently now than she would be if she were carrying passengers as well?

Mr. GORDON: I would not like to pin myself down on that. That is a further hypotehetical question. I would not say yes or no to that. I would have to see the actual results.

The CHAIRMAN: Shall the item "Passenger Traffic" carry?

Mr. GORDON: Excuse me. One reason for that is: when you talk about passengers on the William Carson, you also talk about carrying automobiles.

Mr. CARTER: Yes, I know.

Mr. GORDON: And the automobile price might be quite satisfactory. It is, in a sense, a freight item. But, nevertheless, it goes with the passenger, and we are not carrying automobiles to Argentia, as you know.

Mr. HAMILTON (*York West*): Mr. Chairman, Mr. Gordon has said that we have got dining, sleeping car facilities and parlour car facilities, all of which we carry at a loss. How many actual scheduled trains do you have that you figure you are operating at a loss, Mr. Gordon? Can you give us any idea as to that?

Mr. GORDON: That is a very hard thing to break down. I would say again that I could give you the over-all results. I would say, as a generalization, in respect to our main line trains, perhaps we do not come too far off breaking even. But, where you get an extreme density, for instance between Toronto and Montreal, I would say yes, we operate at a profit. But, we have to figure only in terms of our over-all passenger situation, and what that looks like.

Mr. HAMILTON (*York West*): Is the over-all passenger situation carried on at a loss?

Mr. GORDON: Oh, very definitely.

Mr. HAMILTON (*York West*): If there could be an elimination of some of those areas of loss, that might mean we could reduce our freight rates?

Mr. GORDON: Again, it is one of these things about which you cannot just make a simple assertion. You have to keep in mind that the passenger trains are using the same facilities and the same roadbed as the freight traffic. To start in to sort out how much money you would save if you eliminated the passenger business altogether becomes a very difficult thing, because the railway is built; it is there. If we never had passengers, then that is a different story, but if we are starting as from now, and saying, "Cut out all passengers", how much money are you going to save? It would be very difficult for me to make an estimate, because I know I still have my roadbed and I would still have stations in many places. Although I would not have passenger stations, I would still have to handle express and baggage, and things of that kind. But we can tell you purely from the standpoint of apportioning to the passenger business the directly attributable out-of-pocket costs that are the wages of the crew that runs the passenger train, the cost of our equipment for passenger purposes alone, and everything that we could pin-point as belonging to the passenger business, plus a formula percentage of the overhead cost of the facilities of the railway generally; and that is about how it works out. And, on that basis we, as I said, show a substantial loss.

Mr. HAMILTON (*York West*): I can understand that what you are saying pretty well ties in with the ordinary business. To a great extent, you are contributing the volume of business that helps to pay the fixed charges and things like that?

Mr. GORDON: Yes.

Mr. HAMILTON (*York West*): Then there are areas of operation within that sphere, with a certain volume added, that does not even meet the ordinary operating expenses of that particular area; would that be right?

Mr. GORDON: Yes. You could put it this way; if you break down our revenue, for example, we took in $656,375,000 last year in freight. We took in $118,426,000 in revenue from passengers. Now, I can give you—

Mr. FULTON: That is not the figure you gave us here.

Mr. GORDON: Do these not agree with the statement? Yest, that is right. Those figures will not agree with the income statement, incidentally, because they are apportioned figures. Let us put it this way. Out of the grand total on revenue, which you will find on page nine, we took in revenue of $774,801,000. We figure that $118,426,000 came from passengers and related business—things that arose because we had a passenger business. $656,375,000 came out of our freight business.

The reason that it does not agree with the figure there is that we credit to the passenger business our express business, what is because express is carried on passenger trains. Then looking at our costs, I find that the money we pay out to run the trains, and then allocating on the formula basis what is traceable to freight and passenger, you come out with our cost of $192,840,000 as against $118,426,000 revenue which we took in, which shows that our passengers business lost some $74 million, and that is before we have paid interest in the form of fixed charges on our investment. But, as soon as I look at that figure, I make a statement to qualify it, because I know that if we washed out the whole passenger business, I would not save anything like that, because, as I say, the overhead is there, the track is there, and you would not save it anyway, because trains have got to run over the same track. That is why you will find a debate about what is the actual passenger loss. It is one of those things that never gets settled. There is debate going on all the time about it, as to what the losses amount to. All I know is, we did not meet, out of revenue, the actual cost of the operation.

Mr. HAMILTON (*York West*): What is the criterion used by the Board of Transport Commissioners in permitting the closing down of a line or the abandonment of a line?

Mr. GORDON: What we are asked to provide the board when we are applying for abandonment are several facts which are taken into consideration by the board at the time the application for abandonment is placed before them. We are asked to provide the following: (1) the system revenues for at least three years, (2) the system expenses for at least three years, (3) the present train services—volume and type of traffic, (4) estimated annual savings to the railway, (5) distance between various stations on the line and railway facilities and services in the area, (6) alternative services for freight, passenger and mail—summer and winter, (7) the productivity of the area, (8) the effect on freight rates, (9) the effect on employees, (10) the effect on property values and taxes and (11) whether the population in the area is increasing or decreasing.

What we have done as a matter of fact, when we felt that a branch line would seem to be a candidate for abandonment in the light of light traffic and so on, is that in the last two or three years we have adopted a policy of sending out a team of officers into the area. There will be a freight man and a passenger man and someone else who will accompany them and they interview and talk with the various people in that area who may be potential shippers. We tell them quite frankly that we have in mind abandoning the line and invite them to tell us in what way they think the results may be improved; is there something that they say we could do that would make it worth while for the railway to stay or is there something that they could do.

Now we find that that works out very well in one sense; when we finally get before the Board of Transport Commissioners there usually is not much opposition because we have covered the waterfront. However, when we start that kind of exploration, all sorts of rumours arise and people start, right away, objecting to losing the railway even before we have applied. So we are damned if we do and we are damned if we don't. If we do not make a check on it, we find when we come before the board that we are reproached for not having checked on the local opinion and if we do make a check along the lines that I mentioned, we start a whole set of rumours. We even have questions raised in the House of Commons.

Mr. Hamilton (*York West*): Speaking about the advice of your financial officers, are there many places where you feel that the railway can save by applications of this kind, right now?

Mr. Gordon: Oh yes, yes, I have a list of definite places. I was going to give you some information on the subject that we mentioned. Last year we abandoned 16.6 miles of railroad and since that has been accomplished I can tell you that I have this list. "Y" at Scotia, Ontario, the Hart subdivision in Manitoba and St. Armand subdivision in Vermont. We have got those definite abandonments under study which would total about 60 to 70 miles and we have 10 that would run about 250 miles under preliminary study; we have also 16 points under study, totalling 495 miles where we have decided not to abandon, or not to apply for abandonment which is really the same thing as not abandoning; then we have another half dozen here totalling 227 miles, which are in the stage of the "first look" so to speak. I mention these figures to show you that this is something we have had under review all the time in connection with new developments because areas do change in the course of time. To mention a typical situation, the railway goes into a given point and develops a territory and, at the time, it is the only means of transportation and is absolutely necessary. Then as the years go by, a road is put through and in due course trucks and buses come along. In the course of time a railway has served its purpose with respect to developing the area and the transport facilities are adequate, but then it really is not good business for the railway to continue. It does serve a useful purpose, as I say, which is absolutely necessary in the preliminary stage.

Mr. Hamilton (*York West*): With reference to the new lines that are being developed now, will we be faced with the same prospect?

Mr. GORDON: Would you mind repeating your question?

Mr. HAMILTON (*York West*): Yes, will we have to go through the same process of evolution with regard to the new lines that you are now putting in?

Mr. GORDON: Well it depends on the character of the district entirely. We have put in a new line recently at Lynn lake and right now it is doing all right, but 10 years from now, will there be roads, will there be highways suitable for trucking? I do not know. You cannot forecast that.

Mr. FULTON: Have you any idea how much is involved or what would be the comparison between the cost of building a railway line and the cost of building a highway through the same area? Has any study ever been made on that subject?

Mr. GORDON: Yes we have those figures available, but they do vary so very tremendously that you cannot really make a good comparison.

Mr. FULTON: Well, I wonder if you can tell me, speaking generally, which would be the higher cost?

Mr. GORDON: I would say that the railway would run higher but it depends again on what we are speaking about; for instance the standard of the road and so forth. But, if you take a first-class railway—well, I do not know, I must qualify it again as against the first-class highway, I simply do not know. It depends so much on the variation; it depends on the kind of conditions that go into it. Will there be bridges, will there be tunnels; has the railway to meet some special conditions in the matter of grades and curvature? The railway, of course, has a more difficult drainage question but, as compared with the expense for a first-class highway, I do not know. I do not think you can make a generalization, but I would suspect the cost of the highway, that is to say a first-class highway, would not be more in the first instance.

Mr. FULTON: These figures which you have given to us, Mr. Gordon, do they include both abandonment of lines and discontinuance of particular services, or were they applications for abandonment only?

Mr. GORDON: Would you mind repeating your question, please?

Mr. FULTON: Do those figures include applications for the discontinuance of particular services such as passenger services and that sort of thing?

Mr. GORDON: Oh yes, in some cases our application is solely to abandon a passenger service as such, or it could be that we are asked to put on a mixed train service instead of a straight passenger service or, in some cases we may apply to abandon it completely.

Mr. FULTON: Then these figures include those as well as the actual abandoned lines?

Mr. GORDON: No, these are lines that would be abandoned completely, that I was talking about here. But we do have other examinations in regard to the reduction of types of service.

Mr. FULTON: Can you say from your general experience, when you have come before the board during the last three years, if that is not going back too far, what has been your percentage of success with your applications?

Mr. GORDON: Well, I can say that we have been doing better lately. For one thing we prepare our case much better, to be perfectly frank, along the lines that I have mentioned. We do go out and talk to people and we are more or less conditioned. I do not know with regard to the word "abandoning"—

Mr. FULTON: Perhaps I should put my question in a more general form. Is it generally correct to say that where you do get to the point of making an application for abandoning a line, it is generally granted?

Mr. GORDON: Yes, we are usually successful because by that time the case is so irresistible that it would take a real stretching of logic to justify anything else but abandonment.

Mr. FULTON: That raises another general point—

Mr. GORDON: Let me put it this way. We know from long experience the kind of reaction that we are likely to get from the board, and therefore we cover all the points in such a way that we answer all the questions. Therefore the conclusion is irresistible.

Mr. HAMILTON (*York West*): Could you make a comment on the general observation that we hear when these things come up, that if you had made use of the latest and the best equipment you would have induced a lot more people to use the line.

Mr. GORDON: We are prepared to answer that. Yes, we are prepared to answer that.

Mr. HAMILTON (*York West*): In other words those lines are really dead when you get that far.

Mr. GORDON: Yes, by the time we get before the board we are prepared to prove that they not only should be abandoned but that it is in the economic interest of the country that they should be abandoned and that the alternative transportation which is available should be used.

Mr. HOWE (*Wellington-Huron*): There was a case in point with regard to the passenger service that was cut off from Palmerston to Durham. With regard to that service, an application was made and was granted by the Board of Transport Commissioners, probably justifiably, but it was changed from a mixed train to a straight way-freight train. It was not too long, however, until the caboose that was attached to that train—I do not know whether it fell apart or went out of order—but it was put back on this same passenger train as a caboose.

Mr. GORDON: Yes, I know. The situation there was that the board approved the substitution of a straight way-freight train. The passenger service was abandoned. We did not have too many trains; we had a shortage of express cars at that particular short period of time and also of cabooses, and we found it convenient to put on that train an old coach, was it not?

Mr. HOWE (*Wellington-Huron*): Well, it was the same coach that was taken off.

Mr. GORDON: Yes, it was the same coach. We used that as a caboose and some people, observing that a passenger coach was on the train, became very annoyed because it did not stop to pick them up.

Mr. HOWE (*Wellington-Huron*): Well it did stop but they could not get on it.

Mr. GORDON: Yes, that is right, I know.

Mr. HOWE (*Wellington-Huron*): A lot of them became quite provoked because there was the same service, the same time, and the same crew and everything operating and they could not ride on it.

Mr. GORDON: Yes, that is right.

Mr. HOWE (*Wellington-Huron*): So naturally they were a little bit concerned.

Mr. GORDON: But that was after it had been abandoned and after the public had been notified that the service had been cut off.

Mr. HOWE (*Wellington-Huron*): Oh yes, that is right, I know that.

Mr. HAMILTON (*York West*): What would be the reason for that, Mr. Gordon, if Mr. Howe has given us the facts correctly, that it had the same train, the same crew and the same time schedule? Why would you drop that off?

Mr. GORDON: This was what?—a way-freight train?

Mr. HOWE (*Wellington-Huron*): No, a mixed train.

Mr. GORDON: A mixed train; well, first of all, whether it is a passenger train or a mixed train or whatever it is, you have a time schedule which you have to maintain, and people expect it. In fact, with the way-freight train we just re-schedule it to accommodate increasing traffic. That is a very serious difference. We also have some other difficulties. For instance with respect to the difference in rates,—the way-freight rates and the passenger service rates and so forth,—and that is all taken into account when we appear before the board. We place before them details as to what it costs to run a mixed train versus a way-freight train and so on.

Mr. HAMILTON (*York West*): There is no pooling law?

Mr. GORDON: It depends on the circumstances, and this is a vital point. The passenger train means that you have got a schedule and you are expected to keep to it. In a way-freight train you have a schedule too, but in the case of a special situation you may change that without warning. You do not care, it does not matter. There may be special situations that arises at any time and we just have to deal with a special situation, but we could not have that on a passenger train.

The CHAIRMAN: Is the heading carried?

Mr. HOWE (*Wellington-Huron*): With regard to pool trains, between Toronto and Montreal and Toronto and Ottawa, how does that revenue compare between C.P.R. and C.N.R. on those trains?

Mr. GORDON: Between Toronto and Montreal did you say?

Mr. HOWE (*Wellington-Huron*): Between Toronto and Montreal and Toronto and Ottawa; how are they apportioned between the C.N.R. and the C.P.R.?

Mr. GORDON: The division of the pool you mean? I do not know that I can give you that information because by so doing I would be releasing information about my competitor and I am not authorized to give C.P.R. information.

Mr. FULTON: Well perhaps we can get at it another way. Is it divided in accordance with the number of tickets sold by the respective offices of the railways?

Mr. GORDON: Yes, there is a formula, but it is quite complicated. There is a formula of division which was worked out at the time the pool started in regard to the division of revenues. There is not only the matter of tickets sold, but there is the mileage, the equipment used, who contributes the equipment, and so on. We will contribute a dining car one day while they will contribute a sleeping car. There are dozens of different factors.

Mr. POWER (*Quebec South*): Would it make any difference when I leave Quebec to go to Ottawa if I bought my ticket at the Canadian National wicket or at the Canadian Pacific wicket?

Mr. GORDON: I would say yes to that because I urge everybody to buy his ticket Canadian National. You cannot go wrong when you buy Canadian National. Let me say that to you! I am surprised to hear of your buying tickets. What happened?

Mr. POWER (*Quebec South*): I mean sleeping car tickets.

Mr. GORDON: Oh, I beg your pardon.

Mr. POWER (*Quebec South*): Last year I asked you a question on pooling and you said that there was a study being made of it. Has anything resulted from it?

Mr. GORDON: It is still being studied. What we are learning more and more—and this has been five years I have been saying this—the hardest thing in the world is how to unscramble an omelette, how, for example, to undo pooling, and we have not found a formula yet.

Mr. JOHNSTON (*Bow River*): I think that is the very point. It makes a difference when riding in a pool train whether you buy your ticket from the Canadian National or from the Canadian Pacific office.

Mr. GORDON: It depends on the territory, yes.

Mr. JOHNSTON (*Bow River*): I do not think that the public is conscious of that.

Mr. GORDON: No.

Mr. JOHNSTON (*Bow River*): Is there not some way it could be advertised?

Mr. GORDON: I do not think so, no. It is a pool train; it is a joint operation; it is too difficult to try to convince people that it would be to their advantage to buy Canadian Pacific or Canadian National. In any event the actual ticket does not make an awful lot of difference. I say there is a difference and it depends on the territory, but it average out because, for example, between Quebec and Montreal it is a Canadian Pacific route; between Toronto and Montreal, the Canadian National Railway line is used; and between Toronto to Ottawa it is Canadian Pacific. So by the time you go to buy a ticket it does not make an awful lot of difference.

Mr. HAHN: The question is this: who suffers the loss? That is the important thing.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): About one in three of your passenger trains runs late. Is that about the same experience as the other main lines in Canada?

Mr. GORDON: I do not know, I have not got the figures. The question of passenger trains being on time has been one which has given us a great deal of concern. I have something on it here. As a matter of fact, I was going after it just the other day. Did you say one out of three?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): That is right.

Mr. GORDON: Are on time?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): No, one out of three is late.

Mr. GORDON: You must have had access to my figures.

The CHAIRMAN: They are in the report.

Mr. GORDON: Oh, that is right.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I did have access to your figures.

Mr. GORDON: Your are quite right, and my comment was right, but it was not what I had in mind. Speaking on the subject, "on time". performance is something which may be affected so easily that I find difficulty in talking about it. To put a train on time all the time all you have to do is to lengthen the schedule. If you try for performance, then the more you try the more likely you are to have late performance. But if you try for perfection you will fall much shorter of it if you try for 50 per cent perfection. So there is always a struggle between the operation and the traffic departments to determine whether the schedule is reasonable all things considered. That is why it is difficult to form judgment about it.

We have had a bad year, particularly this last winter, and we have had more severe weather and more derailments and one thing or another than we have had in quite a long time. We are not satisfied with our performance and we are working steadily on it. It has a great deal to do with the volume of traffic as to whether or not we get in on time. And again, just before a train is allowed to go you may be faced with an agonizing decision of whether to add one more car on the train which will make it perhaps just heavy enough to make the train late. Obviously, there is not enough to make up a second section. You have got to have another half dozen or ten cars and a satisfactory volume of business to do that. So somewhere along the line the traffic officer has to decide deliberately which is the more sensible thing to do, to put on a heavier train and risk a late arrival, or to go into the cost of having a second section. These are the kind of decisions which have to be made.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): What is the difference as between Canada and other countries? I believe I saw some figures somewhere that in some of the European countries they have a fantastic record running well over 90 to 95 per cent of "on time" arrivals. Of course they do not have the climatic conditions we have here.

Mr. GORDON: I will go so far as to say that today I could bring our trains in 100 per cent on time without any trouble just by arranging the schedules. That is the temptation.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Now, in another field, recently on the market we found dispensers for quite a few commodities such as soft drinks. They offered a choice of four or five varieties, and perhaps coffee and hot chocolate. Has any consideration been given to the possibility of including them on trains and thereby doing away with the men who wander through with a pot of coffee?

Mr. GORDON: Yes, I have a note on that. I have before me a rather detailed analysis of dining car services and of the various things we try to do. Included in it are the use of such things as vacuum packed hot meals and the question of how they may be served; vending machines around railway property generally; the use of frozen foods, and things of that kind. The specific note on vending machines—it does not seem to be very clear—but according to my recollection, we did not believe they would be practical on trains. We ran into all sorts of difficulties with them such as mechanical difficulties because the vibration of the train tends to put them out of order. Moreover, we find for some reason or other that people travelling on trains are mischievous and like to dispose of things which they deliberately put into these machines which makes them go out of commission. Generally they have a lot of fun. So we gave it up. We do no think they are worth the effort.

Heading agreed to.

The CHAIRMAN: Now, the heading "Express".

Mr. GORDON: I have an answer to a question asked by Mr. Hamilton.

The CHAIRMAN: Yes.

Mr. GORDON: The effect of the revenues on the rate increase; the actual for 1956 was $18,496,000; and what we actually would get with the increase, if we had had it over the whole year—we would have had an increase of $27,173,000.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): In other words you would expect in 1957 to have additional revenue provided your traffic mix did not change, of some $9 million?

Mr. GORDON: That would be about right.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Among other things you anticipated an increase in wage costs?

Mr. GORDON: If we had had a freight rate increase all during the year 1956 we would have made $9 million more. That will apply to the year 1957 if the traffic mix is the same. But it will not mean the net cost because we have another wage change coming up in June of this year.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): That is why I wanted to compare the two in my own thinking, without going into the question.

Mr. GORDON: Remember too, that we still have an application pending before the Board of Transport Commissioners for another four per cent and if we get it this year, then depending on that point, it will affect our revenue. We will have further wage increase which comes into effect on June 1st.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I was merely trying to portray your case by showing that if you have a further increase you would get only about $9 million of an increase in revenue.

Mr. GORDON: There is an increase effective on January 1st of this year of four per cent potential less the effect of the wage increase. And then I have assumed that the traffic mix will be the same, and then you come out with your figures.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I see.

The CHAIRMAN: The next heading is "Express".

Mr. HOWE (*Wellington Huron*): I wonder if Mr. Gordon would indicate why the railroad has discontinued the carriage of mail on so many of its branch lines?

Mr. GORDON: We do not discontinue it. It is the Postmaster General who discontinues it. By law we are required to carry mail when it is presented to us.

Mr. HOWE (*Wellington Huron*): The railroad makes revenue from it?

Mr. GORDON: That is right, but it is the Post Office which gives it to us.

Mr. HOWE (*Wellington Huron*): I understand that those two which were cut off my territory—that it was the railroad that indicated to the Post Office Department that they would not carry mail any more.

Mr. GORDON: We cannot do that. We are required by law to do it. We may have had a consultation with the Post Office and if they said to us that our service was not good enough for them, they would discontinue it. But we cannot abandon it ourselves. We can only give them the kind of service which would suit them and if they decide to do it another way, then that is the way it would be done.

Mr. HOWE (*Wellington Huron*): When I went to the postal department last year they indicated that it was the railway which instituted the change that was brought about.

Mr. GORDON: It would work this way: we cannot abandon a run but we can change the running of the train, and if our change in the running of the train did not suit the Post Office, they might refuse to give us the mail and they would send the mail another way. It may be that we pointed out to them that our service was not good enough and they preferred to use something else. That could be.

Mr. HOWE (*Wellington Huron*): The reason it bothered me was that in the return which I got on this, with the two branch lines, it would look like a loss of almost one third of the revenue.

Mr. GORDON: That factor would be taken into consideration by the Board of Transport Commissioners. That would be a revenue factor which we would have to disclose.

Mr. HOWE (*Wellington Huron*): Does a situation like that go before the Board of Transport Commissioners?

Mr. GORDON: If we seek to abandon a line, yes.

Mr. HOWE (*Wellington Huron*): No, not abandoning a line; it is the mail service which was discontinued. The line itself was not abandoned.

Mr. GORDON: In getting approval for a change in the passenger service—in this case it is to way-freight—that fact would be produced before the Board of Transport Commissioners.

Mr. HOWE (*Wellington Huron*): There is no change in this railroad. There is no change in the time schedule as yet. The service was discontinued on September 1st from Palmerston to Kincardine and from Palmerston to Southampton.

Mr. GORDON: Well, I am afraid I shall have to look into that point. But my general understanding of it is than in applying for this change in service which was a change from passenger to way-freight service, we would have had to show to the Board of Transport Commissioners anything affecting the mail revenue and so on. But your point is what?

Mr. HOWE (*Wellington Huron*): That there was not any change made in the passenger or rail service. It is still the same, with the same type of trains running that ran last year. It is this mail service which has changed.

Mr. GORDON: And you say it was from Palmerston to Kincardine?

Mr. HOWE (*Wellington Huron*): Yes, and from Palmertson to Southampton.

Mr. GORDON: Would you mind leaving that with me and I will get an answer for you.

Mr. HOWE (*Wellington Huron*): Very well.

The CHAIRMAN: Are there any questions on "Express"?

Item agreed to.

Mr. CARTER: I would like to repeat a point I have been making for the last four or five years. In my riding there is only one express station and that is at Port aux Basques. All the way down the coast to Argentia there is not another express station. Parcels are shipped out from St. John's by express on the boats and many of them disappear. Parcels shipped by the Liquor Control Board have also disappeared very frequently. We do not see why we should not have express offices in the larger settlements along the coast. There should be perhaps half a dozen. A mining town like St. Lawrence has quite a variety of shipments and is deprived of that service. We see no reason why that service should not be provided in towns of that size.

Mr. GORDON: That sounds like a very reasonable request. I would like to look into it. I think you are certainly entitled to an answer as to why we do not provide the service if the traffic is there. If the traffic has grown to the point you suggest I would think that you should have the service.

Mr. CARTER: As there is no express agent there at present there will be no indication as to what the volume of traffic would be.

Mr. GORDON: I am sure this point will come under the committee analysis I referred to earlier. I will make a special note with a comment to the effect that from what you say it seems to be a very reasonable request.

Mr. FOLLWELL: Do you mean in the last line of your report on express, speaking about offsetting a declined number of shipments, that it is an indication that the truck competition is taking over a little more of the business of express and is likely to continue to do so?

Mr. GORDON: There is another one of these various reasons for it. There is a change in the sort of mix of express traffic and we have found that the parcel post service of the post office is providing much more serious competition. That is in small parcels of one to five pounds which are diverted to parcel post. The irony of the situation is that we are carrying it anyway but the post office gets the revenue.

Mr. FOLLWELL: Your revenue would not be as high from the post office service?

Mr. GORDON: No, because the post office makes a little bit on it.

The CHAIRMAN: Shall we carry the item "Express"?

Agreed to.

The CHAIRMAN: We are now on the item "Communications".

Mr. HAMILTON (*York West*): Which overseas company do you work with under the telegraph set-up?

Mr. GORDON: The Western Union. We have an arrangement with Western Union and it has been our world-wide affiliation on a long standing agreement.

Mr. HAMILTON (*York West*): Are you working with the C.O.T.C.?

Mr. GORDON: We have certain arrangements with them but our arrangements are mainly with the Western Union.

Mr. POWER (*Quebec South*): Do you have an agreement with the CBC for the transmission of CBC programs?

Mr. GORDON: The Canadian Pacific Telegraphs and the Canadian National Telegraphs are on a joint account with respect to the CBC programs.

Mr. HAMILTON (*York West*): You are in competition with the Bell Telephone in that field?

Mr. GORDON: Yes, but we have a joint account with the C.P.R.

Mr. HAMILTON (*York West*): Coud you tell us where your lines are which are carrying CBC programs?

Mr. GORDON: I think I have that here. We have the television network service between Toronto and London, Ontario, which went into force in December 1953 and since that time television stations have been added to the network at Hamilton, Kitchener, Wingham and Windsor. The particular network is under contract for a five-year period from July 1956. Service between Montreal and Quebec commenced in July 1954, with Sherbrooke added in August, 1956. Work is continuing between Jonquiere and Rimouski in 1957.

Mr. POWER (*Quebec South*): How far have you progressed on the Rimouski one?

Mr. GORDON: The extension of service there is intended to be completed during 1957. The complete network I just referred to will be under contract for a five-year period from April, 1957. I should complete this by saying that we submitted tenders to the CBC for network facilities from Sydney, Nova Scotia to Port aux Basques, Cornerbrook and Grand Falls in Newfoundland, which tender has been accepted, and that service is scheduled to commence in 1958. That is not a joint account because of our exclusive position in Newfoundland.

Mr. POWER (*Quebec South*): You deal directly with the CBC and do not deal with the Bell Telephone?

Mr. GORDON: No. We are competitors. The CBC calls for tenders and we make a tender. In the case of everywhere else in Canada except in Newfoundland when we tender we tender with the C.P.R.; but in view of our position in Newfoundland it is solely the Canadian National.

Mr. HAMILTON (*York West*): Is there any improvement in the service since we have had the additional facilities of the C.O.T.C., or have you had any complaints about overseas service prior to that?

Mr. GORDON: Are you thinking about cable now?

Mr. HAMILTON (*York West*): Yes.

Mr. GORDON: I find it difficult when you say "any complaints". Generally speaking I think our service is well regarded and certainly there have been no serious complaints or I would hear about them.

The CHAIRMAN: Shall the item "Communications" carry?

Agreed to.

The CHAIRMAN: We are now on the item "Operating Expenses."

Mr. FULTON: I have a question here which came in in the last day or two, in connection with the health and welfare plan. It is a matter which I would be glad if you would explain. The question in essence is why the organized employees do not seem to get as much benefit from the plan as the unorganized employees? I have a long letter about it here. I do not wish to take up the time of the committee to put it all on the record but I wonder if it would be sufficient if I just summarized the complaint. I think I can make it clear: "you are asked to protest the action taken by the management of Canadian National against, (1) certain monthly rated organized employees have been deprived of ten days sick allowance per year under the recently negotiated health and welfare plan, and (2) organized employees of single status who are being compelled to contribute $4.25 per month to the health and welfare plan, while the unorganized employees of single status are only contributing $2.50 per month."

Further we are asked to take up the fact that the unorganized employees after one year of employment relationship are entitled, in case they get sick to an income for one week of 100 per cent of base pay and after two or more years employment to an income for two weeks of 100 per cent of base pay, whereas in the case of organized employees they do not at any time receive an income, if they are sick, of 100 per cent of base pay. The maximum in their case seems to be 75 per cent of base pay.

Could you explain why there are the differences?

Mr. GORDON: I am not quite sure I have all the points you mentioned. As I understand it there are three main allegations which have been raised. First, that certain monthly-rated non-operating employees have been deprived of up to ten days' sick leave. The second was in respect of the question of rates of contribution in respect of the non-ops. The single and married, which is $4.25 per month, and in the case of the non-scheduled was $2.50 for the single ,and $4.25 for the married. I think those are the two main points.

Mr. FULTON: The other one was that the unorganized employees received, after one year's employment, for the first week of sickness, 100 per cent of base pay, and after two year's of employment, they are entitled to an income, for two weeks, of 100 per cent of base pay, whereas in the case of organized employees, they never see—

Mr. GORDON: I think I comprehend it. That is really the same as the other point. The 100 per cent is in respect to ten days sick leave, you see.

Mr. FULTON: I see.

Mr. GORDON: First of all, I want to say very definitely that we do not discriminate against organized employees. The allegation has arisen out of a very complex situation arising from the inauguration of health and welfare plans, which came about through negotiations with the non-operating trades last year. It is perfectly obvious that in a railway, and particularly an organization as big as the C.N.R., there are innumerable differences in working conditions between various groups of employees. It is quite unreasonable to compare segments of the employees or their working conditions, whether the employees are organized or not. But, I want to say in a general way, that there are accepted general differences between the working conditions of organized and non-scheduled employees, and these differences must be kept in mind to get a proper understanding of this rather intricate matter. First of all, the organized employees are paid overtime, in most cases at punitive rates —that is, one and one half times the normal rates—whereas, non-scheduled employees are not.

Secondly, the organized employees have the right to bid from job to job on the basis that "qualifications being sufficient, seniority shall govern". This includes the right to bid laterally—that is, they can move from one job over to another paying the same rate. In the case of our accounting office in Toronto, for example, there are important sections where the rate of job change, under this condition, exceeds 100 per cent a year. This must be presumed to be a privilege that the organized employees value. Otherwise, they would be willing to forego it, and they are not.

But, it certainly is not compatible with efficient operation of an office. We do not permit it in non-scheduled offices. On the other hand, this type of arrangement may be considered prejudicial to the interests of some employees in organized offices because of the emphasis on seniority rather than on qualification.

The negotiated non-operation plan is a very new plan, and it is the largest plan of its type in Canada. It is inevitable that there will be differences of opinion as to many of its facets. The fact remains that every member of this plan is better off than he was before the plan came into effect. The degree of being better off varies.

It is perfectly true that some of the non-ops employees gained less benefit than others. But, on the installation of a plan of this kind, I make the first point very definitely, that everybody received benefit. They are all better off today than they were before the plan.

Some 5,000 monthly rated clerical employees did in fact lose certain sick leave privileges through having the weekly indemnity provided by the negotiated plan replace the privilege which they formerly enjoyed. In other words, we had a rather loose working arrangement before this plan. I emphasize that it was a privilege and not a right, that under certain conditions sick leave was granted. As I say, that was a privilege. The non-operating employees chose to raise that for a matter of negotiation, and to include it as a right. Again, I emphasize that the new plan extends weekly indemnity benefits as a matter of right to 75,000 C.N.R. employees who previously had no indemnity.

There is a contention, made by the men, that the previous limited sick leave privilege cost the company nothing. That is not supported in fact. It is certainly true in some instances where little overtime is necessary, but not in establishments where extensive overtime has to be performed. For example, I have in mind the revenue accounting department in Montreal, where in 1956 the overtime bill was about $69,000, or approximately two per cent of the total payroll of this office. Moreover, the principle involved here is discriminatory as between individuals and groups of individuals among the organized employees. But, the essential point to bear in mind is that sick leave allowances and many other conditions benefitting non-scheduled employees, are different from those pertaining to the employees covered by negotiated plans. There is nothing new or discriminatory about it. To recapitulate: the non-operating unions chose to negotiate, as a matter for their wage agreement—

Mr. FULTON: May I just interpolate. Is "non-operating union" roughly equivalent to "non-scheduled employees"?

Mr. GORDON: No, the non-operating unions are organized employees. They are the people who do not run the trains, the people outside the running of trains. Let me call them the organized employees for the purposes of my discussion here. The organized employees, who are represented by unions, chose to negotiate a health and welfare plan, and the agreement was that there would be $4.25 paid by the company for each man, per month, and $4.25 would be put up by the individual under the union contract. It was a cooperative plan. The details were left to a committee of the railways and the men. There were five railways represented in that committee, and 17 non-operating unions. They came to an agreement in respect to how these benefits should be devised. It was a terribly complicated affair, because the committee set out to get the most they could for this $8.50. But, the conditions in the market covering health and welfare insurance varies in different provinces. There are some provinces where there are hospitalization plans provided by the government, for example, and it would not have been sensible in that case, to provide a benefit under the negotiated plan in a province which provides the identical benefit free. So, in each area, this $8.50 was used to buy the best benefit. In the course of this, the benefits were spelled out in regard to sick leave, as a matter of right. In other words the agreement provided that after a specified working period the employee gets 75 per cent of pay during sick leave for a maximum of 13 weeks, subject to a maximum of $40 per week. That was a part of the agreement that was negotiated. Then we were faced with the fact that we have a number of unorganized employees, and these are employees who do not belong to unions. They are people who are subject to many different conditions of work. They do not necessarily always stop work at five o'clock if it is not convenient. They work overtime without pay—and some of them even have to sit through parliamentary committees. These employees also had certain privileges in regard to sick leave. We felt that we should offer a health and welfare plan to them too.

But remember, that with that group, and I am now speaking of the unorganized, it had to be a voluntary plan. We could not impose it on them and there is no union to impose it upon them. We had to sell it to them as a privilege. By definition, it costs much more to insure a married man, with dependents for medical expenses than it would a single man. So we had to offer a plan on a basis that would be attractive to the single man as well as to the married man because there has to be a 60 per cent acceptance by the group before we can underwrite the plan. We could not get the insurance unless 60 per cent of the group subscribed to it, so this voluntary plan was on the basis that we said to the single man, "You will get the coverage that we have outlined here for $2.50 and the married man will pay $4.25." The essential difference is that one is a voluntary plan and the other is a compulsory plan.

I think I have covered that particular part of the complaint and I hope it carries conviction because that is one of the facts of life, that you cannot avoid in the light of the circumstances that I have described. Now what other point did you mention?

There has been considerable misunderstanding also about the allegations that we settled with the non-scheduled employees on the last wage agreement with 11 per cent against 12 per cent.

Mr. HAMILTON (*York West*): That was organized.

Mr. GORDON: Mr. Armstrong said that I should not use the word "scheduled" because it does not apply. I will start again. In our negotiations with the non-operating unions the wage settlement was 11 per cent. Then, of course, we considered our unorganized employees because it would obviously be unfair to grant a wage increase to the organized employees and do nothing for the non-organized employees. In dealing with this group the simple answer is that the decision taken with respect to the increase for non-scheduled employees influenced by its timing and the method of its application. The period covered in the present contract means that there may be a small difference between the take-home pay of the non-scheduled employee and the organized employee—we grant that, but we must keep in mind the other differences in working conditions between the two classes of employees and the flexibility of the wage and salary administration in the case of the non-scheduled employee. And you are also talking about things which are different in point of time and which were determined at different times. One of these factors of course was the retroactive feature in the non-operating union wage award. We have a great many labour contracts and there are some interesting variations between the non-ops. rate of increase and the increases negotiated with other organized groups. For instance, the non-ops. increases totalled 11 per cent as did those for engineers and firemen, but the non-ops. progression of increase was 3 per cent from January 1, 1956; 6 per cent from April 1, 1956; 8 per cent from November 1, 1956, and 11 per cent from June 11, 1957; whereas, the engineers and firemen's progression—and they are also organized —was 6 per cent at April 1, 1956; 8 per cent at January 1, 1957; and 11 per cent as at June 1, 1957. The conductors and trainmen's increases were 7 per cent at April 1, 1956, increasing to 12 per cent at June 1, 1957; in which there was approximately 1 per cent in lieu of a welfare plan. So therefore if you take any of these progressions and compare them, you will find that there will be slight differences and it is not wholly true to say that there was a 12 per cent increase given to non-organized employees in comparison with an 11 per cent increase for the organized. It is simply that rates of progression of the increases were different, just as they were between some of the organized groups.

We cannot get away from the fact that with respect to this negotiated welfare plan, coming back to that, in the award made by the Conciliation Board there was no distinction made between the married and the single employee. It was a flat rate and the companies' contribution also had to be a flat rate. When we came to the non-organized it had to be a voluntary scheme.

Mr. Byrne: The companies' contribution to the single man was at a lower rate also than the organized?

Mr. Gordon: The voluntary plan?

Mr. Byrne: Yes.

Mr. Gordon: We have said that the employees contribution will be $2.50 per month for the single man and $4.25 for the married man and we took care of the company contribution in the policy as a whole. Our contribution over-all is not much different.

Mr. Knight: I did not quite get what you said there; you referred to the contribution of the married man but is the single man not also compelled to pay $4.25?

Mr. Gordon: In the organized plan, yes, because it is a flat rate for that, and that is what the unions negotiated.

Mr. Knight: And the unorganized scheme?

Mr. Gordon: In the unorganized scheme, the voluntary plan it is 2.50 for the single man and $4.25 for married.

Mr. Knight: Well I think what you have said is necessarily technical and it is hard to follow but, I think that is where the charges of discrimination have arisen.

Mr. Gordon: Yes, perhaps.

Mr. Knight: Has this detailed explanation been given in writing to these unions or in detailed form, so that they can publish it among themselves? Because the results are certainly very unfortunate.

Hon. Mr. Marler: Mr. Knight, is it not a fact that if a bachelor is being called upon to pay for protection, he does not want to pay the same cost as a married man would pay?

Mr. KNIGHT: Yes, that is the very point I am making!

Hon. Mr. MARLER: He has no wife or child.

Mr. KNIGHT: Yes, quite! But I think that you are dealing with this in a different way, I am not speaking of the married man versus the single man but I am speaking of the two classes of categories of single men.

Hon. Mr. MARLER: Well there is a difference between what a man can do freely and what a man can do when he is bound by a collective union agreement.

Mr. HAMILTON (*York West*): I wonder if Mr. Gordon would comment on this point.

Mr. GORDON: Well may I just answer Mr. Knight's point first. My reply to him is that the difference in the contribution rates was fully understood by the union members of the committee at the time we negotiated the plan with them. There was a committee made up of representatives of five railways and 17 unions and this very point was brought prominently to its attention, and they fully understood it, and they were satisfied.

Mr. FULTON: Single men in the unorganized group of employees would be able to get theirs for $2.50 a month—you say that was understood?

Mr. GORDON: It was understood as far as I know, but that is not the point they are complaining about. They may have included it among their complaints, but that was not the basic point. They are complaining about a basic difference in the sick leave. And incidentally I might add that this point affects about 5,000 employees out of a total of 80,000. It works this way: the only point in issue is that in putting this plan into operation you are dealing with 80,000 people of whom 5,000 had certain privileges concerning sick leave at that time. When the plan went in, instead of a privilege it became a negotiated right and as a negotiated right 75,000 out of the 80,000 improved their positions with respect to this point. But all of them improved their position overall; there were 5,000 of them who lost some portion of the privileges which they had before in this sick leave field.

Mr. FULTON: They lost the 10 days of full basic pay.

Mr. GORDON: Yes, and they obtained instead an agreement which provided somewhat less in some cases. You find 5,000 people who say that before this agreement that they had a certain right. But it was not a right, it was a privilege that varied among the 5,000 people concerned. I have become accustomed, says a man in the 5,000 group, to expect sick leave on a certain basis. Now there has been an agreement negotiated on the subject and I am getting less on that particular point.

Two answers may be given to that man: one is that on the overall he too is better off; on the overall in the health and welfare plan he is getting better benefits than he ever had before. Secondly I have forgotten what the second point was—oh yes, the second point was that he knows that it was his union which bargained for him and that the union settled the terms of that particular right.

Mr. JOHNSTON (*Bow River*): There seems to be a conflict in it where the unorganized single man pays $2.50.

Mr. GORDON: Yes.

Mr. JOHNSTON (*Bow River*): Whereas the organized single man pays 4.25.

Mr. GORDON: Yes.

Mr. JOHNSTON (*Bow River*): Is the company's contribution the same in both cases?

Mr. GORDON: It works this way: the organized group bargained for a health and welfare plan as part of their wage settlement. It almost came to the point of a strike but we settled it. Part of the settlement involved a health and welfare plan, and we agreed to contribute $4.25 a month per employee to the health and welfare plan.

It was agreed that each man who was a union employee would contribute the same amount. The details of the plan were left to be worked out by this committee.

It was perfectly open for the union, if they wished to raise it, that the single man should get coverage at a lower rate than the married man, but they decided not to do that. They decided to have the same contribution be he married or single. But that was entirely their own business.

Mr. BYRNE: The company continues to pay $4.25, even if they did so decide?

Mr. GORDON: Yes. It would make no difference to us. Our costs were the same in any case.

Mr. FULTON: Your costs had been settled?

Mr. GORDON: That is right, in the negotiation. It is a matter between the member and his union in discussing the details of that plan. We had no interest in it at all except that we wanted to see that they got the most for their money. We were contributing one half of the money and we did not want to see the money wasted. That was the part that we were interested in, namely, to see that the $8.50 was used to produce the most benefits that could be obtained. But on this point, on whether or not he be a single or a married man and would pay a different rate—it was entirely their business.

Mr. BYRNE: Would you say that the unions in their overall program had to pay a similar amount, or could they have?

Mr. GORDON: No. Under the agreement they were obligated to see that each man should pay $4.25.

Mr. BYRNE: Each man had to pay that?

Mr. GORDON: It was at the rate of $4.25.

Mr. BYRNE: The married man would have paid more than the single man?

Mr. GORDON: The unions did not wish to do it. But it was entirely a matter between the unions and their members. If they wanted to do it that way, there was no reason for us to object, because the cost was the same to the railways.

But we were then faced with this problem: here is a group of employees who are not organized; they are a different type of employee and their working conditions are different. We expect things of them which we do not expect of organized men. We do not pay them for overtime. We expect them to be available when the need arises, and in dealing with people of that sort, you give a little and you take a little here and there. When we expect them to work overtime, we would also expect to make some concessions that they might want. We are perhaps a little more flexible about their sick leave because their conditions of employment are different. They give us service of a character which we do not get elsewhere while we, in turn, recognize this difference.

When we came to look at the non-scheduled group—about 6,000 men and women—we said that obviously they must have a health and welfare plan, and that generally speaking it has to be of the same character as we have negotiated with the non-operating unions. It cannot be any worse than the plan for the organized people. And the first thing we came up against was this: that if we had put forward a plan on a basis of a flat payment of $4.25, and bringing bachelors and single women into the group, they might say: no, we can do better elsewhere. As unmarried people we can go and get coverage for less than $4.25. Moreover, we had to get a group policy and one of the conditions was that we had to have 60 per cent participation of the group of employees concerned. So we had to make it equally attractive to the single man and the married man. And to do that we have a situation where the single man is paying $2.50 because he has not the same liability or the same contingent liability as the married man. And the contribution which the company makes is approximately the same, although it has a different impact. We tie the two premiums together and we underwrite the plan with the insuring groups. We are paying more perhaps for married men than for single men, but in the end result it costs us about the same as it does for the organized workers per man, $4.25 per month.

Mr. FULTON: Is the difference between the scheduled and non-scheduled workers, the same as between the organized and the unorganized workers?

Mr. GORDON: Yes, just as between union and non-union.

Mr. FULTON: You are discussing the same groups?

Mr. GORDON: A scheduled employee means an employee working under a labour contract, a wage agreement as we call it. They are known as scheduled employees. Their duties and wages are spelled out in the wage agreement. The agreements vary considerably as between the running trades and the non-operating trades, and they vary indeed between the non-operating trades. I just forget how many trades we actually have. It runs into several hundred trades themselves and I think we have something like 175 individual wage contracts. All these have some variations in them. Each one has to be negotiated.

The CHAIRMAN: We will have Mr. Knight's question and then call it six o'clock.

Mr. KNIGHT: Do you not consider it is fairly important that the rank and file of these people should understand this thing? You say the unions, and I am assuming that you are referring to the head of the unions, understand these things.

Mr. GORDON: Yes.

Mr. KNIGHT: Has any care been taken in order to see that the rank and file have been acquainted with this.

Mr. GORDON: We have issued a bulletin explaining the plans. This problem of how to get information to the individual is one which almost defeats me. However, I say we know as of now we are in a very difficult period. I have only scratched the surface of the problems; there are other things involved in this which affect the employees associations and what will happen to them because those employee associations will have to go out of business. Some of them will go bankrupt if they do not wind up. In talking about it the other day we came to the conclusion it is very much like a fireman who gets to a house, sits back, lights up his pipe and says let it burn a bit until we see where we are. We want to see what will develop so we can deal with the whole thing at one time.

Mr. KNIGHT: I wrote to Mr. Gregg the Minister of Labour and he said he was asking the company for an explanation. Did he ask you for an explanation?

Mr. GORDON: There was correspondence. I do not remember the specific item.

Mr. KNIGHT: I want to say one more word. I have, of course, the same schedule which Mr. Fulton and other members have. The deplorable thing to me is, and this is from one of my local unions in Saskatchewan: "It appears to the members of this union that an effort is being made by the C.N.R. management to make it look as though groups of employees were being rewarded for staying outside the ranks of organized labour and if this be the case we are of the opinion this will have a demoralizing effect on the personnel of the C.N.R......."

Mr. GORDON: I have heard those allegations. They are of course completely untrue but I have never been able to discover how to deal with people who decide to distort the facts. These letters seem to be part of a calculated campaign. If you want to have them dealt with honestly send them along to the minister and I will be only too glad to see they are answered immediately.

Mr. FULTON: I think the explanation you gave here would go quite a long way.

Mr. GORDON: I do not think so. That explanation has already been given to them.

Mr. JOHNSTON (*Bow River*): They certainly have been beneficial to us.

Mr. GORDON: Certainly, and I will be glad to give you all the information I can. But, I warn you again, this discussion is only touching a few of the highlights. It is one of the most incredibly involved set of circumstances among human relations that I have ever had any experience with, and I say, that covers a fairly complicated life.

The CHAIRMAN: We shall meet again at 8.30 in this room, on the item "Operating Expenses".

EVENING SESSION

8:30 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. We will proceed with the item on page nine, "Operating Expenses".

Mr. MURPHY (*Westmorland*): Mr. Gordon, I would like to inquire into the status of the Canadian Government Railway Employees Relief and Insurance Association which has a membership of some thirteen thousand and insurance issued for $9,640,000, and at the present time has an accumulated surplus of $2,956,263. I am informed there was a directive issued at the time of the agreement for the new health and welfare plan to the effect that deductions for the old plan were to be discontinued. Then there was another directive that came through allowing it to be cotninued; and they are now being deducted at the present time. What is the status of this organization now? Is it intended that these deductions will be continued and if not what is the plan?

Mr. GORDON: Well, this is another of these very complex situations which have arisen by reason of the far reaching effects of this health and welfare plan. There were in operation on the Canadian National Railways a number of employees plans covering insurance and sickness benefits which had been operating for many many years. These plans had been employee-managed and had received some help from management in the matter of advice and that sort of thing. When this negotiated plan came in it became quite clear as a result of the plan which came out of the agreement with the "non-ops" that there would be duplicate coverage.

In the early stages of the negotiation we made that perfectly clear, and we have been attempting ever since to find a formula whereby these things could be reconciled. At the present time on the Canadian National Railways there is the Grand Trunk Insurance and Provident Society with a total membership of 16,400. Of the 16,400 there are 4,400 who are pensioners and 7,600 of non-operating unions included in that membership. So that 61 per cent of the "non-ops" are active members of that particular plan; or rather, 61 per cent of the active members are "non-ops" in the railway. We also have a Canadian Government Railways Employees Relief and Insurance Association with 13,900 total membership of which 4,000 are pensioners and 7,300 are members of the "non-ops". There is a Railway Employees Welfare Association of Newfoundland with 5,900 members. I do not know how many pensioners there are, but there are 4,400 who are members of the "non-ops".

I am sorry if I am labouring my explanations but I cannot help it because this is a most complex situation, a situation which is giving us a great deal of concern in respect to our employee relations because there is so much misunderstanding which has arisen that the impression has been created that in some way management is responsible for these employee associations being prejudiced, and that in some way because of the action of C.N.R. management these associations are being liquidated or the benefits that arise from them are being taken away from the members. Therefore if I labour my point it is because it is a most difficult situation in the relationships which we have with our employees.

It is important to remember that the "non-ops" plan resulted from the master agreement in May 1956 which established the contribution I mentioned this afternoon of $4.25 per month by each employee and $4.25 per month by the company for each employee. The details of the coverage to be provided were the subject of prolonged negotiation by a committee appointed under the master agreement of the conciliation board.

I want again to emphasize, and I am being deliberately repetitious, that the committee represented five railways who signed the agreement and seventeen non-operating unions. I want to point out that 61 per cent of the active Grand Trunk Railway Plan members, 74 per cent of the active Canadian Government Railway Plan members and at least 74 per cent of the Railway Employees Welfare Association of Newfoundland Plan members were represented at the negotiations by their legally certified bargaining representatives. They were qualified and legally entrusted to make the bargains that were made. It follows, therefore, that whatever the individual wishes may be, the fact is that these people are members of the compulsory plan from January 1st, 1957.

The situation is that specifications were drawn by the joint committee and after an analysis of the conditions by the joint committee the tenders for the plan were accepted. The committee invited tenders from all insurance companies that wrote health and welfare and life insurance. When the tenders came in they were opened and surveyed by the joint committee. The Blue Cross tender which covered hospital, medical and surgical coverage was accepted; and also a tender from a group of companies which we call the Sun Life group headed by the Sun Life Insurance Company, including a group of other companies was accepted for the weekly indemnity and life insurance. These tenders were made and accepted. The quotations made by these organizations were made on the assumption that the railways would discontinue payroll deductions for duplicate coverage. That was clearly understood and clearly put before the committee, which as I say included 17 railway union representatives. The contracts with the underwriters will contain specific undertakings to the effect that there will not be duplicate coverage through payroll deductions.

I will try to explain in a moment why that is so important. The Canadian National Railways is only one of 22 signatories to the agreement. In other words we are not a free agent at all but only one of 22 representatives who made the deal with the Blue Cross and the Sun Life group. We are one of five railways and 17 unions involved in accepting the tenders. The Canadian National Railways will, in due course, have identical clauses in its own contracts affecting those to whom I referred this afternoon as not being union members—the non-scheduled groups—giving the same undertaking in regard to duplicate coverage.

The reason why it is so important is first of all that the groups whose tenders were accepted stipulate they will only write the insurance on the undertaking that we will not make payroll deduction for duplicate coverage. because what is happening in experience is very clear. As it stands now, under the coverage which is represented by this plan there is a 75 per cent weekly indemnity for sickness. Take an example of one of the other plans. There is 50 per cent coverage for sickness. So a person who is on weekly indemnity under both these plans at the same time can draw 125 per cent of his wages, and that I should mention is tax free. Secondly, we will also find that the same individual can take his hospital bills already paid for by the underwriters of the negotiated plan and then having had them paid for can take the same bills and go to the employees' association and have them paid over again. This is not theoretical, it is a fact and is happening.

Mr. MURPHY (*Westmorland*): Has it happened yet?

Mr. GORDON: Yes it has happened. Legally under the contracts they are entitled to and are receiving in some cases 125 per cent of their wages because they are sick. Now you see in an insurance business experience has shown that duplicate coverage promotes unnecessary utilization of welfare plans with the result that there is an unwarranted increase in the cost. Therefore the union representatives are as anxious as we are to ensure that it is not duplicate coverage because it is perfectly clear that it is going to cost a great deal more if this duplicate coverage is allowed to obtain. At the beginning we undertook to see that we would not make payroll deductions for members of the employee associations who were also members of the negotiated plan. Because this thing was so obvious and logical we issued advice to the effect that we would no longer make payroll deductions for employee-sponsored associations, or for any other form of deduction that would represent duplicate coverage. We sent that notice out. We made a mistake. In looking back I think we made a mistake in doing that. It was perfectly logical, and perfectly clear, that it had to be done. We discovered that there was much misunderstanding about the situation, when these employee association funds, which had been operating for 50 years and more, were suddenly advised that the company would no longer make payroll deductions.

Then all sorts of distortions, misunderstandings and misrepresentations of the facts occurred. I am not saying that it was malicious. I simply say it occurred in the middle of a very complicated situation. It is very difficult, and we still find it difficult. I do not know what the answer to it is. It is very difficut to "get over" to the individual members just exactly what is happening to them. All they know is that suddenly they were told—the association was told—that we no longer make payroll deductions. Because of the upsurge of emotional opinion that arose, we reversed ourselves. We said, "all right, for the present we will make the same deductions as we did before, until there is time for all your members to understand what is happening, because you should not be paying twice for the same thing. In some cases, that is what they were doing. Not only that, but under your own negotiated plan, you cannot have duplicate coverage. You cannot have the best of both worlds, and part of the over-riding agreement is that there will not be duplicate deductions; one for the negotiated plan, and concurrently, deductions for the employee-sponsored plan." But, as I say, we probably made a mistake in thinking that logic would provide an answer. I have learned that logic does not necessarily provide anything. So, we did reverse ourselves. We said we would continue to make the deductions until there was an opportunity for the people to understand. So, as of today, we are still making deductions on behalf of employee-sponsored plans. But, I emphasize this, that can only be a temporary situation. Incidentally, we talked to the insurance companies and persuaded them, because of the tremendous upsets in this matter, that there had to be time; and while it was clearly illogical and wrong from their business point of view, they had to give us time no matter what their tender meant. As of now, we are continuing these deductions. I want to say that it is inevitable that the duplicated deductions must be discontinued. If they are not, then the health and welfare plan as negotiated must fail because the underwriting groups will not provide coverage at the prices that they quoted in their tender if duplicate coverage is permitted. They cannot afford to permit it.

So we, in the C.N.R., have this problem. The C.P.R. have their own problems, of a similar kind, but not quite as acute as ours. It seems to me that that is the case with everything. However, we will just put that in brackets. But, because of the composition of the C.N.R., which, as you know, included six companies that went bankrupt, we inherited more of these employee associations.

At the time of these particular negotiations, we had eight commercial insurance organizations, and six employee-sponsored organizations that we were making payroll deductions for. Now, note what I say: there were eight commercial insurance organizations, that we had recognized over the years, and had been making payroll deductions for in the terms of various types of health and welfare insurance, and there were six employee-sponsored organizations, that is organizations run by our own employees, where the deductions were paid into a fund, and were operated by our own men, representatives of the employees. Of the six employee-sponsored organizations, those in Saskatoon and Winnipeg requested us to discontinue the deductions for the non-operating employees because they recognized the realities of the situation. The non-operating plan gave a better benefit, and therefore they realized that they ought to wind up. The British Columbia organization requested a complete discontinuance, and ceased operations on February 28, 1957.

I would like to try to make it clear that nothing I am saying is a reflection, or a criticism on those employee-sponsored organizations, which unquestionably, met genuine needs when they were established. In the two particular cases that you mentioned, the Grand Trunk Railway, and the Canadian Government Railway Fund, the C.N.R. management indeed played an active part in them. We have gone along with them over the years, we have discussed their problems, we have given them advice, and we have told them how best to handle this and that. There is no doubt about it, they have done a good job, and the benefits which they were able to give to their members have been perfectly good benefits. But the fact of the matter is that the negotiation of this health and welfare plan, means that they are no longer needed, and so their usefulness is over. The problem is, how best to wind these associations up, because the negotiated plan gives a better benefit than they can, on the over-all. There are some specific items where it is not as good, and that raises other complications, but the withdrawal of a substantial proportion of the membership of the employee-sponsored plans, which would follow as a matter of course, means that these organizations can not survive. When I say "as a matter of course", I mean as a matter of obvious intelligence, because under the compulsory negotiated plan, for the non-ops. organization, under the terms of the contracts the companies are required to stop payroll deductions for the employee-sponsored plan, and other plans providing duplicate coverage. They are required to stop.

So, the compulsory withdrawal of a great number of these members, who were contributors to the employee-sponsored plan, means that these employee-sponsored plans do not have further reason for existence. Now, representations have been made on a basis that I find difficult to answer. The representations have been made that in some way, the C.N.R. management has been the architect of the demise of these employee-sponsored plans. Nothing could be further from the truth. On the contrary, our attitude is, that we want to do our best to advise them how best to meet the fact that they are going to lose a lot of their members, to such an extent that they cannot continue. It was no action of management—it is a fact that their own unions had negotiated these arrangements with the railway and whether it has been properly explained to the members or not, I do not know.

I do not know whether it could be explained or not. I make no criticism of that; it is just that the matter is so complicated that it seems to be impossible to really get through to everybody just what is happening to them.

Now, there is not much real difficulty about the question of health and welfare—that is, that part of the coverage which covers sick leave, hospitalization, and medical benefits of that kind. That is not too difficult, because that is a current situation. Most of these employee associations were run on the basis of what they call "an assessment". In other words, each year they figured out what their claims experience had been, and decided how much it would cost to meet them, and they assessed their members from year to year with a rate of premium, based on experience. In relation to the health and welfare, I do not think there would be much difficulty about that. But, the trouble is that these employee-sponsored plans have what might be called a melded system. In other words, they have an over-all benefit, which includes life insurance. Because they include life insurance, then, when you start to wind them up, you find that they have accumulated reserves to take care of their potential life liability. Therefore, there is a paid up, or cash surrender value of some type that belongs to their members. That is where we get into all the trouble, because how can the plans be wound up and how can their assets be distributed equitably? These assets run into some millions of dollars, and all of the men who are members of this association have an interest to some extent. Now, if the rates charged by the associations are correct, and if the actuarial price of that insurance had been right, there would not be any trouble, because all that needs to be done would be to take the funds that are available, and reinsure their liability with an insurance company, or a group of insurance companies. That is the theoretical position. It ought to be that way. We do not know whether that is true or not We have not managed these funds I have said we have taken a paternal interest in them, because the members are our employees. But, when it gets down to cases, we just do not know whether or not the cash reserves that they have will in fact be sufficient to reinsure the liabilities they have oustanding in the form of insurance contracts. Thousands of men, tens of thousands of men hold an insurance contract. The question is: on the basis of an actuarial approach, will the reserves of these associations be sufficient to discharge the liability? What we are doing in that respect is that we are talking to them and trying to advise them, and eventually we hope that they will listen to us and do what is the intelligent financial thing to do. Because we have no selfish interest in this matter at all. We have no interest, except to help these associations work out a basis of discharging their liabilities on a financial and actuarial basis that will make common sense. But unfortunately, in the process, our motives are suspect. A lot of people do not believe that we are objective about this thing and there have been statements made with the idea that we have deliberately set out to ruin these funds. Well, of course, this is not true. It is a matter of the end result of a negotiated plan. We, however, want to do our best to work these funds out to a desirable conclusion but emotion enters into it on the basis that some of these funds have been running for 50 years. Moreover, there is another unfortunate fact which is that a great number of the contracts now outstanding are in the hands of pensioners; people who have retired from the railway. They do not have medical, hospital or surgical coverage under these funds but they do have insurance. We have to find some way of dealing with this equitably.

Now just to add complication upon complication, we have cognizance of the fact that we are talking about a Grand Trunk Railway fund and we are talking about a Canadian government railway fund and we are also talking about a Newfoundland fund, the Railway Employees' Welfare Association. Those are the three main ones we have left. Now it could be easy for us to step in and say "Look fellows, this is a clean-up and we will take over your liability and we will take over everything; we will take over your cash and discharge the liability." That would be easy and it sounds sensible. But if we were to do that, we would give a discriminatory benefit to certain employees that would not apply to others and we would be in trouble right away. We dare not do that, we cannot afford to give any one group of employees a cash benefit of a character that might cost us millions of dollars. The potential actuarial liability of some of these funds makes me tremble, because I do not know what it is; we have some of them under examination now and when we find out what the facts are, then we hope to be able to help them devise a plan. However, most certainly we cannot, as a company, recognize that there is a group of preferred employees who are going to get a cash benefit that would not apply to others.

Now, as I have said before, we have had a specially close association with the old C.G.R. and the Grand Trunk Railway's fund. We have a particularly difficult situation with regard to the Newfoundland fund and I must speak now with great care because there could be some very serious difficulty about that fund.

Mr. HAMILTON (*York West*): Is this a narrow gauge fund?

Mr. GORDON: I record that for this reason, that in the Newfoundland fund we have had no part in the management. We have not given them any advice at all and we do not know what their liabilities are. We only know that since the Newfoundland Railway came into the system, those who have operated this employees' fund have offered policies of insurance containing benefits that have spread all over Canada. They have spread over Canada on the basis that they have offered better benefits than the other established funds and, by that definition, I expect trouble. I do not know what kind of trouble until we get to the bottom of it. It is not management trouble; we could wash our hands of it and maybe we will do so in the end, but our approach to it is that we are trying to be helpful, we are trying to advise these employees who are responsible for these associations. If they listen to us I hope that we can eventually get this thing on the basis that it will make sense but as I have tried to say, there are differences between all these associations; such differences that you cannot make any generalized statement about them. However, the situation has not arisen by reason by any sole action of management; we are caught in a web of circumstances that arises out of the fundamental fact that the unions and the railways have negiotiated a plan that will have the effect of putting these employee-sponsored plans out of business.

Mr. FULTON: And you thought, when you took on this position, that you were being asked to manage a railway!

Mr. GORDON: I was going to manage the railway, yes; I think you are right.

Mr. HAMILTON (*York West*): And now you are president of an insurance company?

Mr. GORDON: But it is important, gentlemen, and I should like to stress to the members of this committee that I do not want you to think of anything that I have said as being construed as antagonistic. It is not. I am completely sympathetic to these people. The two funds, with which I am familiar, the Grand Trunk and the C.G.R., are a matter of great concern to me. The men who have operated these funds over the years have done a very good job; they have done a responsible and a capable job, and they have looked after the interest of their contributors over the years. They have done a first-class job.

When it comes to the end of the road and these are finally wound up, I want to make it clear that we are not looking at it in any mood of criticism. We are simply trying to adjust ourselves, and them, to the facts which face us in the light of these new circumstances. If we can be left to ourselves to talk and to explain and to show them, I am quite satisfied that we will work out a reasonable arrangement and that it will be a sensible arrangement. But unfortunately, in a thing of this kind all sorts of emotions arise and individuals, knowing very little about the facts, proceed to write letters to the Members of Parliament, they proceed to write letters to the press, they write to the clergymen and they write in the most exaggerated terms and without any relation to the facts whatsoever. It all adds up to the general idea that in some way or other the C.N.R. management is ruining their association and is bankrupting their association.

Now if we get into that kind of thing then we cannot have the sort of objective discussion that will clean this up. This is going to take time, it is going to take patience but it can be done. However, it cannot be done if I and the officers who are working with me have to constantly fight a rear-guard action against misrepresentation and malicious rumours.

Mr. MURPHY (*Westmorland*): Mr. Gordon, in view of your lengthy answer to my first question, I am going to ask you to comment on the feature of the 4,000 retired people who are under this employees plan which has an accumulated surplus of $3 million. I would like to ask you to comment on the railways, that is to say, the C.N.R.'s responsibility in view of the recognition of the railway which has been given to this association in supplying, as you mentioned, certain advice to it and also as management's expense, I understand, bookkeepers or systems of bookkeeping and have done all that clerical work. It was brought to my attention that the Provident Fund Act in section 21 recognizes the association, and I might just point out to you the section which was shown to me, says "any person in receipt of a monthly allowance under this act (this act being the Intercolonial and Prince Edward Island Railways Employees' Provident Fund Act, Chapter 22, Statutes of Canada, Edward VII—6-7) shall cease to be a regular member of the association and shall thereby relinquish all claims to sick or accident benefits from the association provided that he may, if he so desires, retain his membership in the association in regard to the life insurance feature of the association, in which case the board may each month deduct and pay over to the association out of his monthly allowance, the monthly dealt-levy due by him to the association." And in the act it refers to membership in the I.C.R., Employees' Relief and Insurance Association. Now it has been said that this has been a recognition of this association and that it has deepened the management participation in this plan and I should like to have your comment on these representations and also on the fact that the management of the C.N.R. has very materially assisted, not in money contributions, but in employees paid by the railway and in materials that were provided for the bookkeeping and other administrative duties that went with it.

Mr. GORDON: Well there are so many ways to answer that, that I am at a loss. You see the situation, as I see it, is that through the years management certainly, and I admit this at once, has taken a very definite interest in these employee-sponsored plans, particularly in the C.G.R. and the G.T.R.

We have given them advice, in fact we have given them assistance in a monetary way and otherwise, because we believed that it was good policy to have these associations well managed and happy. Now at what point the giving of advice and the giving of assistance in regard to employee-sponsored plans involves a moral obligation or liability, I do not know. But I feel it very deeply and I feel that now that we are in this position we should certainly nurse the situation along to the point where we can liquidate this on the basis where nobody is going to be hurt. At this moment I do no know if that is possible; I have not got the actuarial analysis of it to a point of trying to establish what the liability means in terms of dollars.

You ask me "Why do not I know that" and my answer is that the we did not know what the health and welfare plan as negotiated, would be and only recently have I been able, in the light of these facts, to determine just what the liability or what our moral obligation is to these employees. I may say this, from a completely hardboiled point of view, as far as I know, in the legal situation we would be perfectly justified in saying "We have got nothing to do with it, we have got no liability at all; they are not our obligations; they are policies of insurance containing certain benefits issued by an employees' association and if they cannot discharge these liabilities, well it is their funeral; we cannot help it."

That is one point of view and I could defend that point of view in a court of law much better than I could defend the point of view which I am going to express to you now. We approached this difficulty on the basis that it is a joint situation to the extent that we have, over the long years, taken a very interested look and a very interested part in these employee-sponsored organizations. We have, as I say, given them advice; whether that implies a liability or not, I do not know. As far as we know it was good advice, in regard to their investments and in regard to their contributions and what the premiums should be and so forth. At no time did it imply a legal liability and now we are in a situation where, by reason of something new, all these obligations that had been underwritten by this association are going to have to mature. They are going to have to be determined, because they cannot support them anymore, since they have not the financial contributions that would support the continuation of these obligations. They will not get the current members or the new members.

You see, here is the pensioner, for example, who has a policy of insurance. He is the beneficiary of the policy, but unless there are current contributors and unless there are new members who are paying in the money every day and every month and every year, to keep the fund going, there is not going to be any money in due course. The trouble is that this new negotiated health and welfare plan is going to mean that the other plans are not going to have these contributing members. They will not be paying any more and at some point of time I do not know when, nor do I know how it should be managed, nor do I know what the fair thing to do is in terms of these outstanding liabilities, but there will be trouble. Over a period of the next three years, and I just took that at random, there would be no trouble.

These policies would be paid because there is enough money in the reserve; but there is a point coming along, maybe five years, maybe eight years, maybe ten years—I do not know when—when there will not be money to discharge the policies which are going to mature in that particular year. What I am trying to do—and when I say "I" I am speaking in terms of the C.N.R. organization, the officers around me—what we are trying to do is to find a means whereby all these outstanding policies and their liabilities can be determined in terms of actuarial valuation and to find out to what extent the money that is available will discharge that liability. At the moment nobody knows. We do not know because the fund has been, as I say, on an assessment basis. It has not been done on a scientific premium basis such as an insurance company would do it, and of course its coverage is so broad that it makes the situation quite different. They have assessed themselves a premium based on their liability experience from year to year. I hope I have made it clear. I do not know. Sometimes I wonder myself if I know what it is all about.

Mr. MURPHY (*Westmorland*): You said that these employees associations were superseded or being superseded by a health and welfare plan initiated by their unions.

Mr. GORDON: That is right.

Mr. MURPHY (*Westmorland*): This plan has been there for many years, and many people have been policy holders who were never members of the unions?

Mr. GORDON: That is quite right.

Mr. MURPHY (*Westmorland*): And now they are on the supervisory staff and in other positions as you call them, non-scheduled positions in the railway?

Mr. GORDON: Yes.

Mr. MURPHY (*Westmorland*): And the unions did not speak for them.

Mr. GORDON: Yes.

Mr. MURPHY (*Westmorland*): And they are also going to suffer because of the contribution not being continued at some point.

Mr. GORDON: It all depends. I listened to your word "suffer". That is a relative term; but remember in your analysis—

Mr. MURPHY (*Westmorland*): They are going to suffer a financial loss.

Mr. GORDON: In your analysis there is another group which you have not mentioned, and that group consists of the running trades, the operating trades and the running trades who are not a party to this matter at all. The question that these organizations are going to have to answer is whether or not they are going to be able to retain enough voluntary contributors to provide a current amount that would enable them to discharge the liabilities they have assumed in the form of these policies.

I do not think they can get enough. I am sure they cannot because there will be such a massive withdrawal in connection with the non-ops. plan. Take the Canadian Government Railways plan; 74 per cent of their members are members of the non-operating unions which have negotiated this agreement.

Mr. CARTER: What is the figure for Newfoundland?

Mr. GORDON: 74 per cent at least, it says. We are not nearly as sure about Newfoundland because we do not know as much about it. We have never been associated with the Newfoundland group as closely as we have been associated with these two older groups; we do not know. But our estimate is that it is at least 74 per cent.

Now, even 74 per cent of the members of this group that we are talking about must withdraw for the simple reason that they are forced to withdraw under the terms of their agreement. And even if they negotiated through their own representatives, and said we want to stay outside the agreement, they would be foolish because they are getting a better benefit for less money out of the negotiated plan. Under the terms of the negotiated plan contracts the members are not permitted to have payroll deductions for duplicate coverage. We are committed to discontinue deductions from payrolls on account of these men. I have reason to believe—I do not know this, I simply mention it in passing; I may be taken up for it, but I say this because I am so concerned to get all these facts established—I have reason to believe that the members in the maritime provinces, particularly those of the Canadian Government Railways plan, did not want to go along with this abolition of payroll deductions. But we do not really know anything about it. I am only repeating a rumour. We deal only with their legally certified representatives; we are not allowed by law to speak to anybody else except their legally certified representatives.

Mr. HAMILTON (*York West*): If the legally certified representative releases this group, would there be any reason why you could not carry out or go along with their plan?

Mr. GORDON: I would need to think about it; I doubt that it would be practical because they would not get the percentage needed to get the health and welfare plan.

Mr. HAMILTON (*York West*): They need this group in order to get 60 per cent.

Mr. GORDON: Of course they would need this 60 per cent. Otherwise it just would not work. The whole thing would break up.

Mr. HAMILTON (*York West*): If I follow you correctly, there are two main groups of people affected by this; we might call it detrimentally or not. There may be an argument about that. That would be the group which did not come under the provisions of health and welfare and the fact is that you pay them their $4.25.

Mr. GORDON: Yes.

Mr. HAMILTON (*York West*): And the others get an allowance.

Mr. GORDON: That is right. They are getting the money.

Mr. HAMILTON (*York West*): There would be no legal reason, if there were sufficient numbers, why that $4.25 should not be handed out.

Mr. GORDON: No reason at all. Those men are perfectly free to take the $4.25 which we give them in lieu of health and welfare and pay it into an organization. On request we will do it for them by payroll deduction.

Mr. HAMILTON (*York West*): And in the other group we are talking about there are about 4,000 pensioners.

Mr. GORDON: Yes.

Mr. HAMILTON (*York West*): They must pay their premiums directly, or are they deducted from their pensions?

Mr. GORDON: The pensioners are not in the health and welfare. The pensioners now have only life insurance and under the provisions, as I recollect them, we, at their request, deduct from their pension cheques what is payable to this association, and we are perfectly prepared to go on doing that.

Mr. HAMILTON (*York West*): Providing there are enough people left in the association?

Mr. GORDON: Yes.

Mr. HAMILTON (*York West*): But if there are not, they would suffer, and they would get back a very small amount of money.

Mr. GORDON: Quite.

Mr. HAMILTON (*York West*): These things are before you in any case and in trying to work them out, you do your very best to protect as much as possible those who depend on it.

Mr. GORDON: We are doing our best to give them advice which is accurate, recognizing that in the case of the compulsory plan we are paying the company cost and we are not the architect of destruction of this association fund.

Mr. HAMILTON (*York West*): Dealing with that one point, have you had legal advice or have your legal officers advised you that there is no legal liability still left with the railway because of their association with the creation of this plan? I see on their membership here that there is a place for a railway official to sign.

Mr. GORDON: Which plan are you referring to?

Mr. HAMILTON (*York West*): This is the government railway employees insurance association.

Mr. GORDON: As far as I am advised, the Canadian National Railway has no legal liability of any kind in regard to the liabilities assumed under this association. The only liability that I would recognize—and I speak subject to the fact that somebody may prove me to be wrong—but I am completely satisfied myself that the only liability we have is a moral one. I don't mind telling you that that is much more important to me than a legal liability in this particular thing.

A moral liability arises out of the fact that we have advised them over the years and in consequence they have managed their affairs very well in these two funds. But with respect to Newfoundland, as I said, I have nothing to do with it. I do not say that in any other way except as a cold fact. But with these other two funds, in view of the fact we have had a long association and we have senior officers who are members of the association and we have advised them about their affairs and investments, the end result is that I hope an actuarial examination will demonstrate that the liability is not too bad. It may be that they can work themselves out of it. But we are not going to work ourselves out of it if we get into these endless distortions of fact.

Mr. HAMILTON (*York West*): As I see it, to make it work, the only way it could be done would be (*a*) to have a release of some kind by the unions, with certified bargaining people of this group so that they may retain a second membership. They would still have to maintain their membership in the certified group to get the necessary 60 per cent, and that would also have to be consented to by the insurance people. They would have to allow a duplicate coverage.

Mr. GORDON: One minute; there is an important item in there. Let us see if I can express it. You must realize that so far as health and welfare and this hospitalization, medical and sickness and so forth is concerned, it is a current matter. That is something which is current insurance, and that is covered now on a better basis in the new negotiated plan, and that is compulsory so far as the members of the non-operatives are concerned, and that is 74 per cent of their people; they amount to 74 per cent of these members; they must drop out in regard to health and welfare. So we are now left with the remainder; those who are not members of the non-operating group health and welfare plan plus those who have a life insurance policy. That includes 4,000 pensioners plus those who are now in active employment. So we have to sort out what the liability actually is and then we have to test it against the amount of money they have available. They are not by any means bankrupt. They have millions of dollars on hand. But the question is when we get all through with it, the question is whether or not the liabilities which they assumed can be discharged over the years with their funds.

Mr. HAMILTON (*York West*): The history at the moment is that it started out on the basis that there would be no further deductions. But you have come to the place where you are now continuing to make deductions for this legalized plan.

Mr. GORDON: We have made no change in regard to deductions. We announced in doing it that we would discontinue deductions. But because of this upsurge of emotional misunderstanding we decided—well now, we will just wait, and we are continuing making deductions, and they are still being made.

Mr. HAMILTON (*York West*): For the legalized group?

Mr. GORDON: For the whole organization. But any minute now we will have to find out. The agreement applies not only to us but it applies to the five railways who have signed this contract with the 17 "non-ops" unions. We must discharge our agreement and part of the agreement is that there will not be duplicate deductions made.

Mr. HAMILTON (*York West*): Is anyone pressing you? Are the insurance people pressing you at the moment?

Mr. GORDON: Oh yes.

Mr. HAMILTON (*York West*): And the certified bargaining group?

Mr. GORDON: Yes, and they are pressing us much harder, because as it stands now the contract which has been negotiated includes not only the benefits which I have described and which are in the policies, but it gives them under option number two—it gives each one of their members the right to extend his insurance, his life insurance and so on—not life, but hospital and medical insurance at a very favourable rate. In other words, there is a basic insurance which is covered by the $4.25, or by the $8.50 if we take them both together. But because of the fact that they are members of the group each one of those individuals is given a second option to enlarge his coverage at a much better rate than he could get as an individual.

Now, in order to get that option at a favourable rate there must be 60 per cent acceptance, and the unions are anxious that that 60 per cent come along, because it means a benefit for all their members. But the trouble is that in those areas where the Canadian Government Railways Plan and the Grand Trunk Plan is operated, this duplicate coverage is working so that the men are not coming in to take up their option, because as long as they can get it through the employees' association, they feel a loyalty to it with this old plan, rather than with the new plan.

Mr. HAMILTON (*York West*): Can you say whether or not you can hold them off until such time as you have completed a survey?

Mr. GORDON: No, I cannot. As a matter of fact we are already overdue in respect to signing the contract. Any moment the insurance companies will say you have got to make up your mind to act.

Mr. BYRNE: Did you not enter into an agreement with the union negotiating committee that you would stop making these deductions?

Mr. GORDON: Yes.

Mr. BYRNE: How do you justify this? If the negotiating committee want you to stop cutting off it is their baby from there on in.

Mr. GORDON: No. The point was this, that the committee which was a joint committee of the railways and the unions agreed on the nature of the plan and then they offered that plan to the insurance companies for tender. The Blue Cross and the Sun Life group, covering respectively the hospital, medical and surgical for the Blue Cross, and the Sun Life group the weekly indemnity and life insurance, tendered a premium and they were the lowest tenderers and their bid was accepted. Part of that premium was based on the premise that there would not be duplicate payroll deductions. But we went to the insurance companies and said, this is a very difficult thing to get over to the members and we have these outstanding employees' associations and we must have some time and you will have to swallow it. So at the moment the insurance companies have said, all right we will give you time, but time is running out.

Mr. BYRNE: In the meantime they are covered?

Mr. GORDON: Yes. There is duplicate coverage right now and we are in an awful mess. They cannot carry on much longer. We simply have got to carry out the terms of the contract which have been agreed to by the five railways and the seventeen unions.

Mr. BYRNE: What about the letter Mr. Knight has? Surely the unions know that has to be done?

Mr. GORDON: That is a different point altogether.

Mr. CARTER: Does the new welfare plan have life insurance coverage also?

Mr. GORDON: Yes. $500.

Mr. CARTER: Do any of the old companies have some sort of annuity benefits? Did any of them have sort of a pension fund where they could pay insurance and supplement their benefits?

Mr. GORDON: Not through these associations. The annuities, I think, were always on the basis of the pension fund. The R.E.W.A. which is a Newfoundland arrangement had some sort of annuity which I have never been able to understand. I had better not say too much because the Newfoundland situation is a problem in itself. It has all the complications I have included plus a lot more.

Mr. CARTER: When you said these associations made their assessment on the basis of experience would that apply to the Newfoundland one also?

Mr. GORDON: I do not know what happened in Newfoundland. When the Newfoundland railway came into the system there was a form of a policy covering health and welfare, life insurance and I don't know what.

Mr. CARTER: I think at one time they had a housing scheme as well.

Mr. GORDON: Yes. There were all sorts of things included. What developed was that the association or whoever was in charge of the association proceeded to advertise and ask for members, all over the Canadian National system, for this particular benefit association in Newfoundland.

Mr. CARTER: Only since 1949.

Mr. GORDON: Yes. It could not be otherwise. That contact was arranged and we now have situations where people all across Canada in one degree or another have been contributing to a Newfoundland plan. Of course the plan itself was organized in 1927.

Mr. CARTER: Yes.

Mr. GORDON: But what I am referring to, the extension of the plan which included Canadian members, started when the Newfoundland railway came over. Looking back on it, perhaps we should have taken some steps to prevent it. I do not know how we could have. As a result there are members of that plan now who stretch through Canada and they are on other railways beside the C.N.R.

We have not determined yet what the associations' liabilities are. We do know at the moment we are being deluged with telegrams saying, in effect, we are bankrupting the plan. As I tried to explain, the health and welfare plan is a freely negotiated plan by their own members and the impact of it will mean a lot to the members. I do not know whether or not the Newfoundland plan as such will be able to discharge its liabilities. I do not know that because we do not have the facts.

Mr. CARTER: These representatives who negotiated the plan must have known all that.

Mr. GORDON: You see the position they are in is that we have to carry out our contract with these insurance groups. But even if we were able to carry on and make deductions from the payroll it means an individual who is both a member of the association and the health and welfare plan is paying twice for the same thing.

Mr. BYRNE: It really is a good deal if he is sick.

Hon. Mr. MARLER: It may be something the same as insuring a house with two insurance companies.

Mr. GORDON: The point is the insurance companies will not let you get away with it. In our case they are temporizing to give us time. They say in our own interests we cannot go on.

Mr. FULTON: May I take your mind back, Mr. Gordon, to the other discussion we had before dinner, in which you gave us a very full explanation. There was one thing which I think should be cleared up, because there is a suggestion in the letter, which we received, that does not jibe with the explanation you gave. I would like to have on the record an elaboration of what you said.

The statement in the letter is this: "Also when the award of 11 per cent increase in wages was made to the organized employees, an award of 12 per cent was given to the unorganized employees. The explanation given as to the extra one per cent was that it was to take care of the medical award given to the organized employees, and it did."

My request is that you might enlarge on what you said this afternoon—that there were other reasons why there was this difference of one per cent in the award—so that the actual facts would be available to those people who have written to us, and to whom we will be sending copies of the proceedings.

Mr. GORDON: I do not know where those facts came from but it is a complete misinterpretation of the facts. The only extra one per cent that was given to take care of th medical award was in th conductors and trainmen's increase, which was seven per cent on 1 April, 1956, and increased to 12 per cent on 1 June, 1957. That did include approximately one per cent in lieu of a welfare plan. But, that was only in reference to the conductors and trainmen. It had no bearing at all on the unorganized employees that they are referring to. I suppose that is what they are talking about, but it just is no—he said it was in lieu of a welfare plan.

Mr. FULTON: No, I am sorry. It says that the award was made to the unorganized employees.

Mr. GORDON: Yes.

Mr. FULTON: These surely would not be conductors and trainmen?

Mr. GORDON: No, no. That is what I said. When you mentioned the one per cent in lieu of something, then I say, the only thing that I knew of was, that there was a one per cent given in lieu of a welfare plan to the conductors and trainmen.

Mr. FULTON: Who are organized?

Mr. GORDON: Who are organized, yes.

Mr. FULTON: On that basis, then, the information that has been furnished to our correspondents is not correct?

Mr. GORDON: It is quite wrong, if I am getting what he is saying correctly. But, the trouble is, that your correspondent is mixing two completely different things, we think. The unorganized employees, that we are talking about, when we say we settled with them for 12 per cent; the simple answer is, that we settled with them at a different point of time than we did with the others who were getting 11 per cent.

Mr. FULTON: That is the explanation you made this afternoon?

Mr. GORDON: Yes, that is correct.

Mr. FULTON: I think that gives me the picture.

Mr. GORDON: That is the explanation that we gave; the 11 per cent was based on a progression, and then we considered our unorganized people, the people who do not have any representatives, and we worked it out at that time. But, it was much later than when we had made the other arrangement, and in point of time, recognizing how it would work out, the 12 per cent gave them, roughly speaking, the same as what was meant by the 11 per cent.

Mr. FULTON: So the 12 per cent you gave to the unorganized employees had no reference to, and was not explained by a desire to make up to them for, medical coverage; it was simply to equalize their wage position, from the point of view of time?

Mr. GORDON: Remember, Mr. Fulton, that one thing should be kept clear; we made a settlement with the organized employees, which is the 11 per cent settlement we are talking about. Then, as management, we sat down to consider what would be a fair and comparable adjustment with the unorganized employees, who are not represented by anybody but ourselves, and we are management. In terms of their condition of service, and all the other factors, we voluntarily—not by negotiation—we voluntarily announced a 12 per cent increase. I am only telling you that when we arrived at the 12 per cent increase, which need not have anything to do with the organization at all—after all, it is our own business, as management, what we do with a group of employees. But—I am telling you that, in considering that situation as to what would be a fair adjustment, we took into consideration the process of time, conditions of service, and so forth, and decided that 12 per cent would give about a comparable adjustment.

Mr. FULTON: So that the only people who got 12 per cent, compensating for the lack of a medical plan, were a small group of organized men?

Mr. GORDON: Yes, conductors and trainmen—an organized group. It is true, that I am now giving you, for the first time, an explanation as to why we made it 12 per cent. The men themselves may be surprised, I do not know, but that is what our negotiations produced. And then, of course, what has been seized upon is, that some members of the organized groups, who want to try to make the allegation that we are out to show favoritism to non-union members, have seized upon this 12 per cent versus 11 per cent, and said that it is obvious that there has been discrimination. My reply is, there is no such thing. That is not true.

Mr. FULTON: You say it was an equalization?

Mr. GORDON: It was as close as we could make it to an equalization. I make this further comment, and I say it deliberately, that if we had made it 15 per cent, or 20 per cent, that still had nothing to do with the organized trade. It was quite within our managerial judgment, to determine whether or not a group of employees, that we were dealing with, were entitled to a wage increase, and we arrived at what we thought was a fair adjustment at that particular time, having regard to all the conditions of service and everything else. But, the two things should not be compared. There is no basis for comparison because, I say, they are a different group of employees altogether.

Mr. BYRNE: Mr. Gordon, that was the over-all increase for the non-organized group. Do you not deal on an individual basis with individuals of that group, on the basis of their length of service, and their capabilities, and so on?

Mr. GORDON: Yes and no.

Mr. BYRNE: Or do you refer to the group as a whole?

Mr. GORDON: We have been working out, over the last few years, a very scientific approach to the question of salary adjustments, which includes what we call a job appraisal; a series of performance appraisals and job evaluations. But, it is a grading system, which calls for a minimum, standard or maximum salary. We have been trying to apply that over the years. It has taken a long time because a great number of people are affected. But, we have started to get the middle management group extending through to the senior group. But because there have been so many affected, we have taken a group of our below middle management group, and we have more or less tried to adjust it on an ad hoc basis, pending the time when we will be able to put in our job appraisal and annual report of performance, which is basically on the basis that we give increases in that group on a merit performance basis. We have grades set and the increase will not be according to the over-all picture but the increase will be on the basis of a satisfactory report on performance of a particular individual.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Mr. Chairman, I would just like to check something here: the increase in depreciation between 1955 and 1956 substantially represents changes in the accounting basis, is that correct?

Mr. GORDON: Which page are you on now, Mr. Hamilton?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I am sorry I am page 30 "Operating expense", which is a subsidiary schedule supporting the operating expenses on page 9.

Mr. GORDON: I think if you will look at "Depreciation" on page 32, that is the page you should be on, should you not? Oh, are you comparing last year with this year, Mr. Hamilton?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Yes.

Mr. GORDON: And your question was, again?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Well there is a substantial increase in the depreciation from $9 million to $33 million this year.

Mr. GORDON: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): And there was also a corresponding drop from $77 million to $62 million. I am picking out "Road maintenance" only at this point, under "Track and roadway". And in the $77 million in 1955 that includes a substantial item of retirements expense, I would assume, which is now picked up in depreciation.

Mr. GORDON: Well these figures arise out of a substitution of depreciation, that is to say straight line depreciation, as compared with the three different types of depreciation which we had formerly. We had replacement retirement for certain groups, we had retirement depreciation for others, and we had straight line for others. Now, through uniform accounting, speaking generally, our depreciation is a straight line depreciation based on the lives of the properties but it averaged out to the same thing actually.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): It would average out to the same thing for a period of years.

Mr. GORDON: That is right.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): But I was interested in its effect on the operating results of the year under study.

Mr. GORDON: Quite, quite!

Mr. HAMILTON (*Notre-Dame-de-Grâce*): In other words in 1955 you had $9 million under depreciation and retirements and road maintenance and this year we have $33 million odd.

Mr. GORDON: Yes, that is right, but that is an offset you see.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): And my question was whether or not—I think the easiest way to put it is this—had the old system been continued, are we to assume that track and roadway items which this year actually represented $62,900,000 would have, under the old system, perhaps, been some $14 million higher?

Mr. GORDON: Well it would have been offset right away. The way it works with this new method of depreciation, is that the intention is to iron out the ups and downs, so we can get a straight curve instead of the incidence of retirement in any particular year and the effect that it would have had on our accounts—well, Mr. Armstrong has the figures and I will let him go ahead.

Mr. ARMSTRONG: Mr. Hamilton if you will look under "Road maintenance", in the Track and roadway section, you will see that the ties expense this year was $900,000; on the old basis they would have been $12 million. Rails are $400,000 and on the old basis they would have been $8.5 million and so on. Well, when we come down to depreciation and retirement section, whereas this year it is actually $33 million it would have been about $3.7 million on the previous accounting basis.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): That is what I had thought the case was. Well now that brings me to my next question which was, when do you complete your new railway replacement program? That was a program which, as I remember it, went over a period of three or four years and upon which you were doing quite heavy work—or is it complete?

Mr. GORDON: You are thinking now in terms of deferred maintenance, Mr. Hamilton?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): No, I am thinking specifically in terms of rail laying programs. At the end of the war I believe you had a substantial amount of lightweight rails which had been laid and which you were gradually replacing.

Mr. GORDON: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): And two years ago, I think it was, you made reference to the fact that you had a sizeable rail replacement program.

Mr. GORDON: Yes, that is right. That is again in the budgeting presentation. I will be able to tell what our rail laying program is, and we do have a program —I could anticipate it but I think it would be better to wait. I can, however, say generally that we have in mind that we have about 1080 miles, as I recall it, of what might be called "True deferred maintenance", in our rail program, and we expect to overtake that by excess rail laying program, over the years. That is to say in the next five years. So therefore we expect at the end of five years from now that we will have caught up with all deferred maintenance which could be called true deferred maintenance in respect of our rail laying. I will have the figures when we come to that point in the budget presentation.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): In other words there is no question that perhaps during 1957 you will reach the end of that?

Mr. GORDON: Oh no.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): And will have a less capital requirement.

Mr. GORDON: No, the reason for that is that even if we wanted to we could not get the rail. There just is not enough rail produced to enable us to suddenly catch up the whole of the 1080 miles which I mentioned.

I remember Mr. Fulton's comment here that we must remember to be very careful to talk about deferred maintenance and not punitive deferred maintenance and the deferred maintenance that I am speaking of is the deferred maintenance that arises out of the standards of rail that we are talking about. We have, speaking generally, in the C.N.R. five classes of railways, that is to say, five classes and standards. They are roadbed and track, we have our main track, obviously class I, and it grades down to a, b, c, d, and e. We finally get down to the sidings and branch lines and what not.

Now we figure over the years that for the different kind of track for this large system we will need 1080 miles of rail laying to raise them to standard. We are just not up to the standards we have set for ourselves. We expect to overtake it at a rate of roughly 220 miles a year until we get it over in the next five years. I have a budget item specifically this year to show that we are overtaking this year 220 miles, above what would be normal maintenance, in order to take care of deferred maintenance.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Just one more question under operating. Have you been able to assess in any way any result, good or bad, from your switch to an advertising agency last year which has its head office in the United States?

Mr. GORDON: Yes, I think so. We found in the first place that we have not only made the switch that you referred to but we have improved the style of our advertising. We have gone into specific newspaper advertising which pinpoints a particular type of thing. In going in there we had what is called in advertising circles a motivation survey, and on the basis of that motivation survey we reached the conclusion that the type of advertising we had been doing was not sufficiently specific. So we turned more to newspaper advertising than we did to large periodical advertising and I think the results show that we have—we can only say that we have had more travellers from the United States relatively than we had before.

I do not know how to measure advertising. The best way I know is to look at what you started out with, and what you end up with. Generally speaking my public relations people inform me that they are well satisfied with the switch and well satisfied with the change in approach in respect to the type of advertising we have done. I have a four page single spaced memorandum here on the subject.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): No, if you please.

The CHAIRMAN: Are "Operating expenses" agreed to?

Item agreed to.

"Taxes, rents, other income and fixed charges".

Mr. HAMILTON (*York West*): In paragraph 24, does the increase in the rental on your foreign line freight cars indicate a shortage in any way of your own cars? Are you retaining foreign cars more?

Mr. GORDON: Well, that is always a question that we have to ask ourselves. As a mater of fact, as I say, there has been a larger average utilization of our own equipment during the year than we have had in previous years. But it depends a great deal on the type of car. My answer would be no; it does not demonstrate that we were overall short of cars. It simply means that the specific type of traffic enabled us to rent cars at a better advantage than to build cars.

Mr. HAMILTON (*York West*): Where do you show your revenue from the rental of your cars?

Mr. GORDON: We cannot show it separately. It is included in the overall.

Mr. HAMILTON (*York West*): Do you show your rent as an expenditure separately?

Mr. GORDON: Yes, because we can identify it. You cannot show revenue, can you? I do not see how you can.

Mr. HAMILTON (*York West*): I would like to have the total of rent that you received.

Mr. GORDON: We can show you that but we cannot show you the picture specifically. However we did receive during the year from foreign lines for our equipment $25,741,000 and we paid out for their equipment $30,147,000.

Mr. HAMILTON (*York West*): That is the amount in paragraph 24 under net amount.

Mr. GORDON: Yes.

Mr. HAMILTON (*York West*): And it is on a balance of the thing?

Mr. GORDON: Yes, the complete record shows $5,900,000 paid to private lines as well, and the net amount is $10,306,000.

Mr. FOLLWELL: Is the exchange rate in your favour now on the American dollar?

Mr. GORDON: The exchange rate on the dollar, or on the equipment?

Mr. FOLLWELL: No, on the dollar. Do you find the exchange rate at the present time for our dollar being more favourable than the American dollar, that it is more favourable to your operation, or does it just about balance out?

Mr. GORDON: I see what you mean. Well, it just about averages out in the overall backwards and forwards. There are so many transactions that we average out the premium against the discount.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): As a crown owned corporation you negotiate your municipal taxation with the city in which you are located. Is that correct?

Mr. GORDON: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Does the railroad apparently feel that it is paying municipal taxes on all its property at the full rate of taxation?

Mr. GORDON: Well, our approach to it is that we approach the municipalities on the basis of trying to appraise the service which the municipality renders the railway; and we negotiate with them for payments for those services in lieu of taxation. I cannot allege that everybody is satisfied with it, but by and large we have a reasonably agreeable situation. For myself, I think we made a fair adjustment and that most municipalities accept it in that way.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Well!

Mr. GORDON: If you asked them, I think they would all say that they would like to have more.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I am interested vis-a-vis the railroad in a situation where there is a change in government policy, if you wish to call it that. It has occurred over the last few months. Prior to then the government attitude was that in certain cases they paid municipal taxation at the equivalent of full rates, while in other cases they paid no municipal taxation on direct government property.

Mr. GORDON: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): In the circumstances of a municipality dealing with the railroad would they probably feel quite happy to get any tax from it, or shall we say as much as they could, now that the government is paying full municipal taxation on its property.

Mr. GORDON: Of course you have to remember again that we are dealing with a very mixed organization in the Canadian National Railways. We have the situation where in some parts of Canada no provincial or municipal taxes were paid by railways owned by Canada and entrusted to the management of the Canadian National Railways because they were regarded as works for the general good of Canada. The Canadian government railways in the maritimes for instance were exempt from all form of provincial and municipal taxes. But that did not apply to other sections of the railway.

From 1925 my information is that following a conference at Ottawa we arrived at a general process to try to get the provinces to accept a uniform method of taxation on the portion of property of the railway where it was taxable or exempt; and on that basis we have worked out these various details I have just referred to. We did that under specific authorization by order in council which was pretty much all our engineering, to show the actual services that we used. We understand that we ought to pay for those services.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Would the C.N.R. in the light of the changed attitude of the government as evidenced in legislation towards the municipalities consider renegotiating and opening up again these agreements with the municipalities some of which I believe are on a fairly long-term basis?

Mr. GORDON: I do not know about that. I think it would arise in the course of the day to day approaches that might be made to us by these municipalities and provinces. I do not myself see that the new legislation has any particular bearing upon the C.N.R. because if our negotiations have been in error we would still be speaking on the basis of paying for the services we use. I do not see any fairer basis for taxation. So I do not think the new legislation necessarily opens up all the agreements at all. Of course, you must remember there are situations which apply to the C.P.R. and ourselves where we are legally exempt in the terms of certain railway operations and we would not feel we should accept the liability in that respect without very good reason for it. My reason is, as I say, that the yardstick is about as fair as I know how to make it, show us what we are getting and we will pay for it.

The CHAIRMAN: Shall the item carry?

Mr. JOHNSTON (*Bow River*): Mr. Chairman, before the item carries, Mr. Hahn wanted to say a word on it. It is now ten o'clock. I think we should let the item stand until tomorrow.

The CHAIRMAN: The Committee will meet tomorrow morning at 10.30 in this room.

EVIDENCE

TUESDAY, March 19, 1957.
10.30 a.m.

The CHAIRMAN: Gentlemen, we have a quorum.

We will now proceed with the item we were dealing with last night; taxes, rents, other income and fixed charges, on page 11.

Mr. Knowles, have you a question?

Mr. KNOWLES: Mr. Chairman, since this is under the general heading of "Operating Expenses" perhaps you might agree that it is as good a place as any to raise the matter of the pensions of the employees of the Canadian National Railways. I think I can make my remarks at this point quite brief. I am sure the view that some of us hold must be well known to Mr. Gordon, in view of the number of times that management has had to supply answers to my questions, and in view of the number of times that we have made our case in the house.

As Mr. Gordon knows, the Canadian National pension set-up is a rather complex one, which has grown up because of the various plans that were inherited. I am happy to add my word in commendation of some of the changes that have been made in recent years. There is no question but that the pension that will be available to employees now in the service, is a tremendous improvement over what was the case in years gone by.

Nevertheless, it is still a fact that the basic pension, which a large number of the employees receive, and which is all they receive, is only $25 a month. According to the latest information which management has supplied, and which Mr. Marler placed on the record on March 7, 1957, at page 2003 of

Hansard, in answer to questions of mine, there are 3,068 employees receiving just \$25 a month. I might add one other statistic, to the effect that there are a total of 7,176 employees who are receiving less than \$40 a month. This figure is arrived at by putting together some of the various statistics that were provided in the answers to my questions as they appeared in *Hansard* of March 7, 1957.

I am sure that we are all familiar with the arguments back and forth as to the contractual basis, but I was pleased to hear Mr. Gordon say last night that there are times when he feels the force of moral argument is greater than the force of a legal argument. It is my submission that the Canadian National Railways, which is in a better position today than it was some years ago, has a moral responsibility to its former employees, whose pensions are in these lower brackets.

As I say, Mr. Chairman, this case has been made so often by a number of us in the House of Commons, that I do not think I need to spell it out any further at this point.

When we were debating the matter in the house this year, on March 12, the minister very kindly invited us to raise the issue here.

I may have something more to say after Mr. Gordon has spoken, but I ask him if he does not feel the time has come for the railway to consider raising to a more substantial figure this basic pension of \$25 a month.

Mr. GORDON: Mr. Chairman, and Mr. Knowles, this question, as you say, is a complex one. It is necessary for a proper understanding of it, to review just a little history. I would like to take a few moments to give you the background of the situation, and then, perhaps from that, you might raise further questions of detail.

This question of an increase in the Canadian National Railways basic pensions involves three specific considerations: (*a*) developments in the company's pension plan itself, (*b*) the position of other retired persons living on fixed incomes, (*c*) governmental measures for dealing with the matter of old age security.

Prior to 1935, the C.N.R. had an entirely non-contributory plan, which provided, subject to certain age and service qualifications, for pensions of one per cent per year of service of an employee's highest average salary for any ten consecutive years, with a minimum of \$25 per month. That was the situation as at 1935. On January 1, 1935, a revised pension plan was introduced. To summarize it briefly:

(*a*) the right to non-contributory pensions which employees then in service had accrued was preserved; that is, on normal retirement they were entitled at the sole expense of the company to the greater of—

  (i) a service pension equal to one per cent of their highest ten years' average salary to December 31, 1934, multiplied by their years of service to that date; or

  (ii) a minimum basic pension of \$25 per month.

(*b*) employees entering the service on or after January 1, 1935, at not over age forty-five and remaining to normal retirement age were entitled at the sole expense of the company to a basic pension of \$25 per month.

(*c*) in addition, all employees with ten years' service were offered the option of supplementing their service or basic pension by contributing up to 10 per cent of salary, contributions up to five per cent of salary being matched by the company. That was the essence of the new plan and the privilege that was then offered to new employees.

On retirement the total plus interest became payable in the form of a supplemental annuity based on approved actuarial tables. (Since January 1, 1947, employees have been entitled to contribute during their first ten years' service but the company does not match during this period).

Unfortunately, a large proportion of employees failed to take advantage of the opportunity to contribute toward increasing their pensions and therefore became entitled on retirement only to the basic or service pensions payable at the sole expense of the company. It is principally pensioners in this category who have encountered the most serious difficulties because of the rise in the cost of living since World War II. The position of these pensioners was given most careful consideration by the management of the company in association with representatives of the labour organizations prior to the further revision of the C.N.R. pension plan in 1952, and to which you are referring, Mr. Knowles.

Among the factors which necessarily entered into consideration of the establishment of a higher basic or minimum pension was that to do so would benefit mainly those pensioners who had failed to contribute toward improving their pensions and would, therefore, have been discriminatory against, and unfair to, those who had contributed.

In addition, the difficulties encountered by some C.N.R. pensioners because of the higher cost of living were no different from the difficulties faced by other pensioners living on small pensions, annuities, and other savings from which they received fixed incomes. Inasmuch as the C.N.R. is a government-owned organization, an increase in its pension costs would, in effect, have been an additional expense to the public at large, and it was not considered that it would be fair or proper to single out C.N.R. pensioners for special assistance with public funds when the essential problem was one relating to the care of elderly persons in general.

As a means of dealing with the general problem, parliament in 1951 enacted legislation providing for old age assistance at age 65, subject to a means test, and at age 70 without a means test. The effect of this legislation was that a single man with a minimum basic railway pension of $25 per month became assured of a minimum total income of $60 per month, a married man $65 and if his wife also was age 65, they became assured of a joint income of $100 per month. There have been some amendments to that, proposed in the budget brought down recently, I understand, but I am dealing with the situation before that time.

The combination of the old age and minimum railway pensions exceeded the amount of any increase which might have been contemplated in minimum railway pensions, and, accordingly, the revised C.N.R. plan introduced on January 1, 1952—at which date the old age security legislation also became effective—made no provision for increased pensions for those retired employees who, by failing to contribute toward improving their railway pensions could only be assumed to have placed reliance for their security on such assistance as the government might provide.

So far as pensions payable by the C.N.R. are concerned, these factors that I have mentioned remain fully applicable to the situation today.

That is the general background as of the end of the year. It is significant to observe that, notwithstanding that, this privilege—and it is very definitely a privilege, because the benefits of the pension fund, now available to those who wish to contribute, are very generous benefits indeed, relative to other pension funds—is open to any of our employees who choose to take advantage of them. Notwithstanding that that is the case, the figures I have before me now show that only 46.7 per cent of our employees have taken advantage of that privilege. There are 61,745 people, at the time of this table which I have before me, who have a right to take these benefits, but have chosen not to take advantage of them.

Mr. HAHN: What was that number again, Mr. Gordon?

Mr. GORDON: 61,745, which is 53.3 per cent of our employees, who have decided not to take advantage of the pension privileges offered to them, and become contributors to the pension fund.

The only assumption we can make is that these people have decided that, on balance, it is to their own selfish interest not to become contributors, and to depend, in due course, on what old age assistance may become available to them, or they may have thought that they would be better to handle their own savings themselves. That situation has obtained, right through, as I say, from 1935.

To repeat an earlier statement, we have always felt that it would be highly immoral—using a word, Mr. Knowles, that you called to my attention—it would be highly immoral at this day and age to proceed to give a voluntary increased benefit to people who neglected to make the contributions, and that those people who did make the contributions would feel that it was quite unfair that these persons who did not accept that opportunity, should now get special benefits.

Mr. KNOWLES: Mr. Chairman, may I offer one or two comments on what Mr. Gordon has said?

I notice, of course, that he makes a point out of the statement that the basic pension of $25 a month, and some of the other pension benefits as well, are at the sole cost of the company; which carried with it the implication that, if any increase were made, it too would be at the sole cost of the company, without there being involved any contribution on the part of the employees. I am sure Mr. Gordon knows how some of us feel about that, namely that the earnings of the company are, to a large extent, due to the labour contribution that the employees have made. He knows too, that in wage negotiations that have taken place across the years, the pensions arrangement of the company, particularly the $25 basic pension, particularly in the days when there was no contributory pension, has always been cited as one of the benefits that the men are getting as a result of the work they do. I do not think we are asking for the company to give something which is solely a company gift, but rather that we are asking it to recognize the contribution of its employees.

Mr. Gordon suggests that to raise the basic pension, is in some way immoral, and in some way discriminatory against others. I submit as one answer, that the basic pension could be increased across the board. But I suggest also that there are many other instances where one jurisdiction or another has recognized that even in circumstances such as these, the cost of living having gone up and the production of wealth having increased, there is a moral obligation to improve the position of those who are in the lower brackets.

I do not know what Mr. Harris is going to do regarding retired civil servants who are in these lower brackets, but he did say in answer to Mr. McIvor one night, that the matter was being given consideration, and he did say, in answer to a question which I put to him the morning after he delivered his budget address, that it was still being considered; namely, the possibility of doing something for these people in this session. I think there is a particular parallel between the retired civil servants who are on low pensions and the retired employees of the Canadian National Railways. I hope that Mr. Harris' action on that matter will be favourable and if it is I submit that the case will be even stronger for something to be done for the employees of the C.N.R.

May I remind Mr. Gordon that there are other groups in our society who have had increases in pensions; I do not say this too loudly because I do not think what they have done is too munificent; but the C.P.R. has done something for its employees on low pensions. The reason I say that with a bit of a qualification is, of course, because they do it only up to age 70.

Mr. GORDON: You are aware of course that the C.P.R. is a contirbutory plan only.

Mr. KNOWLES: I am fully aware of that, but it nevertheless recognizes its moral responsibility to pay to some of its employees more than they were contracturally entitled to, because of the very conditions that we have cited. A number of other governments have done this sort of thing. I have put this on the record so often in the House of Commons that is is not necessary to repeat it here. And a number of other private companies have done this sort of thing as well.

The changes announced in the budget speech of the Minister of Finance include increases in the pension benefits for certain groups in the society, increases that we all welcome, but no one ever suggests when one group gets an increase and another does not that that one group should not get the increase.

Now Mr. Gordon talks about old age systems and old age security programs as making it possible for these employees to have a little higher income even though they are getting only the $25 per month basic pension, or the basic pension plus the service pension; but I submit that it is not fair for the C.N.R., as I think it would be unfair for the government as an employer of civil servants, if I may put it in this way, to crawl out from under its responsibility by virtue of general government policy.

Mr. GORDON: Mr. Knowles, if I may interrupt at this point, do you appreciate that in the group that you mention which received the old age assistance, an increase in the basic pension from the C.N.R. would give them no difference in their income; it would merely transfer the cost from the government to the C.N.R.?

Mr. KNOWLES: Well the same thing happens as between the recipients of the old age security and the war veterans' allowance and, just as we do not approve of that, neither would we approve of the same situation as applied to the C.N.R.

Mr. GORDON: But how does it improve your position? Your point, I take it, is that you want to find a way of increasing the income to these people who are in need. Now, if we increase the basic pension to those who are now in receipt of old age assistance, the net result of that action would mean the individual would get more money. It would merely transfer the cost from the government to the C.N.R.

Mr. KNOWLES: Yes, that is because of government policy which keeps the means test in the Old Age Assistance Act and you know what I think of that. I am suggesting that it is not something that you should hide behind. May I remind you that once one gets over the age of 70 the means test is not there and any increase such as we are advocating would not be taken away from him by the means test, as it is in the case of old age assistance.

Now, these government programs of social welfare and social benefit affect all kinds of people. I have particularly in mind the old age security where we have no means test, where that additional $40 is available to everybody once he is over the age of 70. The only people who suffer any loss of income by virtue of it are the recipients of the war veterans' allowance and the Members of Parliament when they go on their particular pension but, generally speaking, that is an addition to income which we feel should not be taken into account by private employers in relation to their responsibility to their employees.

As I say, there are some who do that—I know of other organizations apart from the C.P.R. which do this kind of thing and it seems to me that it undercuts the value of the principle in the government policy of universal old age pensions if any private employer should rely on that as a reason why that particular employer should not better the position of its employees.

I have stated some other instances in the House of Commons, for instance: the Ontario Provincial Government not long ago made an improvement in the pensions of its retired teachers who had retired prior to a certain date. Now, no one has complained that it is immoral or discriminatory against teachers who had retired since that date for it to be recognized by the Ontario Government as a moral obligation to those people who had retired earlier, and who, because of the conditions that obtained during their working years, or at the time of their retirement, were receiving a pension which is now regarded as inadequate.

I come back, sir, to the very argument that you used last night, namely, that you could probably defend your position in a court of law on a legal basis that the contract is there and that you are living up to it. However, Mr. Gordon, you yourself said that there are times when the moral argument is stronger and I submit that the railway, now that it is in better days than it was years ago, owes a definite moral responsibility to these employees. One of the ways in which I think you could meet that responsibility would be by increasing these basic pensions, which are now $25 per month, to a more substantial figure. I may assure you, sir, that if you do this, and we hear immediately of some employees not getting that pension because of the means test in the Old Age Assistance Act, or other such provisions, it will be drawn to the attention of the government very strongly.

Incidentally, some raising of the means test ceilings does seem to be in prospect right now, in view of the slight increases that have been indicated in the budget but, I feel Mr. Gordon, that although you have introduced the legal and contractual arguments, you have not met the moral argument and the human argument in this difficulty. You are leaving on the door-step of your former employees all these problems when you leave this basic pension at $25 per month.

Mr. GORDON: Mr. Knowles, I would agree at once—if I thought the moral argument was the stronger argument, and I would be the first to advocate it. Now before old age assistance and old age pension plans went in, government discussion was going on in respect to the actual increase in the basic pension. We discovered that when the old age pension legislation came in, the very employees to whom you are now referring, by the thousands, withdrew from our plan and made it quite evident that they prefereed, rather than pay any money themselves, to depend upon the basic pension, which was free, plus the government old age plan. Now it is important to remember that this $25 per month is a free pension. There is no free pension in the C.P.R. They have no pension in the C.P.R. which has not been contributed to by the employees.

Mr. KNOWLES: Well, Mr. Gordon, you would agree, of course, that the old age pension scheme really is not free. We pay for it. Similarly you would agree that the $25 pension which you pay really is not free. The workers pay for it.

Mr. GORDON: Well, as between the two types of people, there is a distinction. I am talking about the two types of employees now, who at a given time in a career on the railway, both on the same day, have an opportunity to take advantage of a generous pension fund scheme. One man says, "yes, I appreciate that opportunity; I recognize I am getting an advantage and I will make my contribution to it." Remember, the company makes a very large contribution also. Now one man says, "Yes, I will pay out my money and make my provision for my old age", the other man says, "Oh no, no, I will take my chance. I get a free pension of $25 a month and the government is bringing in legislation, and I will depend upon that". And then for 40 years that goes along. Now at the end of 40 years here are our two men, one gets a pension to which he has contributed as a matter of right—

Mr. KNOWLES: Plus $25.

Mr. GORDON: Oh yes, plus $25, yes. He gets the $25 plus what he has contributed in the company's plan. The other man gets $25 per month and he has not contributed to anything, so he does not get it. Now, do you suggest that I go along to the imprudent man and say to him, "I am sorry for you now; you did not take advantage of those opportunities 40 years ago, but we will give you some more free money" and that I should let the fellow who has contributed look at this situation and say, "This is not fair, this is not a moral argument at all".

Now, I am not talking at all, neither am I in a position to argue or debate, on public policy in respect to how old age should be looked after. That is a matter of government policy at any particular time and I have no quarrel with any general scheme that the government may bring in to look after old age pensioners for people over a given age. However, I do object to your selecting the C.N.R.'s basic pensioners for preferred treatment.

Mr. KNOWLES: You realize, sir, that the suggestion that the basic pension should be increased would include increasing it in respect of those pensions which are a combination of basic and contributory. There is no reason why you have to do it only for the group to whom you have referred as not being a contributing group, and therefore, as you put it, a non-thrifty group.

Mr. GORDON: Yes, but the point is that it is the non-thrifty group, the imprudent or the careless and indifferent group, which is being used as a lever to force an action. There is no complaint, there is no complaint at all from the pensioners in the C.N.R. who have taken advantage of their opportunity to contribute to our pension schemes. As a matter of fact, I go across the country, and you mentioned it yourself, and the happiest man that I meet today is the C.N.R. pensioner who has taken advantage of his opportunities. They all feel that their pension is a God-send and I have shaken hands with many of them congratulating me—

Mr. KNOWLES: Provided they have given sufficient service, of course.

Mr. GORDON: Oh yes, of course, I am talking of the man who has given service; the man who has not given service we can hardly be expected to provide for. The pension is based on service. I say and I emphasize that the C.N.R. pensioner, the true pensioner, is the fellow who has become a contributor to the pension fund, has no complaint. He is the happiest man that I find across the country. I have letters from scores, hundreds thanking me personally on the assumption that I had some part in the revision of our fund in 1952. When we revised our fund in 1952 we gave our pensioner an equal opportunity to get the benefits then to be introduced, so that the man who took advantage of his opportunities is perfectly satisfied. There is no one, nobody at all who has raised any question about our revised pension plan.

Mr. KNOWLES: Well I would not want that statement to remain on the record unchallenged. I did not bring down my file but I do have letters which I could produce from the men getting more than the $25 pension who are not satisfied.

Mr. GORDON: Well I would like to hear from them. I would like to hear of any typical pensioner who has had a reasonable degree of service and who gets benefits under our fund. I would like to hear from him a complaint that is not just inspired in the sense that anybody would like to get more money if they could.

Mr. KNOWLES: Well I have such letters.

Mr. GORDON: I would like to hear of anyone who says that our pension fund is not a fair and generous fund when the fellows have made contributions.

Mr. KNOWLES: I will see that such communications are forwarded to my friend.

Mr. GORDON: Of course I am assuming that the person is one of those who is willing to accept the facts.

Mr. KNOWLES: I have such letters. Naturally, Mr. Chairman, they are not ones about whom one speaks when he raises the matter in the House of Commons because, when you have complaints from people who are drawing $75 or $100 a month and the balance are from people who drawing only $25 a month, it is the latter whose cases you plead most strongly.

Mr. GORDON: Oh quite, quite!

Hon. Mr. MARLER: Well that is not necessarily the strongest case morally, is it?

Mr. KNOWLES: Well I think that both Mr. Gordon and Mr. Marler had better be careful in using this moral argument, as they put it, too strongly. They will find themselves arguing against the government policy of paying old age psnsions to people who have not taken out proper pension arrangements with life insurance companies and so on. After all, we have reached the point in society where we recognize that it is just not possible for every worker, whether through thriftiness or what have you, to provide adequately for his old age. There are all sorts of human differences and contingencies which arise. But nevertheless society has reached the point where we recognize that old age is a time when past service to the community should be recognized.

Mr. GORDON: Would you think as a matter of the law of probability that there would be 53 per cent of our employees in the position where they could not make a reasonable contribution?

Mr. KNOWLES: No. I would say that we have not yet reached the point where people, universally, recognize the value of a contributory plan. The whole question of pension arrangements is still in a state of flux. It has been only a few years since the means test was in effect all the way up, and it affected the thinking of the people. It has been only a few years since it was possible to draw old age security without it affecting other pensions. But I think that as time goes on you will find that more people will use any such contributory plan as a supplement to whatever is provided under government legislation.

The CHAIRMAN: May I interrupt. I do not want this discussion to go off on a general discussion of general pensions. Mr. Knowles has had an opportunity to put forward his remarks, and Mr. Gordon has put forth his remarks. But I think it ought to be confined pretty well to pensions with regard to the Canadian National Railway workers, and not for us to get into a general discussion of pension policy. We are not here to discuss pension policies, except as they pertain to Canadian National Railway workers, and I think that is the way it ought to remain.

Mr. BYRNE: Mr. Gordon, have you any figures regarding the number of single employees in the contributing brackets, and in the non-contributing brackets, or whether they are married, single and the average age group?

Mr. GORDON: I do not think we have got them but I will deal with it. While my assistant is looking at his papers may I say to Mr. Knowles that in this committee in 1952 this same matter was discussed at some length. At that time it was new and fresh.

I refer to a letter which I received from Mr. Hutchinson who was chairman of the Chairmans' Association. He had been in discussion with us about our revised plan.

I do not need to read the whole letter but I would quote from a paragraph, remember, he was the representative of the General Chairmans' Association all across the country, and he made this statement:

> Some of those who did not contribute toward annuities expressed disappointment that their lot is not improved but could not seem to impress the meeting that they were entitled to very much consideration on account of the fact that they had not made any effort to improve their lot.

That was the opinion of labour itself. This is the very meeting which took place with their representatives and is the judgment of their colleagues. So, as I say, they were not entitled to very much consideration on account of the fact that they had not made any effort to improve their lot. I suggest that that judgment of their peers is significant.

Mr. KNOWLES: Let me offer by way of comment on that letter that it occasioned a good deal of comment among those affected at the time. I had further correspondence with Mr. Hutchinson about it, and I have had further conversation with him about it, as well. I think at the time there was a good deal of misunderstanding and misinterpretation. I have received letters from various associations; some of them from the Canadian National Railways Veterans' Association of Vancouver, the Canadian National Railways Veterans' Association of Stratford, Ontario, another one from Edmonton, Alberta, and so on. And there is no question on their part as to what they feel about the situation.

Perhaps while I have the floor I might just complete the remarks I was trying to express a moment ago when I was interrupted, that society's attitude towards the whole question of the rights of older people, whether they be simply members of society or employees of a company, has undergone a good deal of change.

I appreciate what the Canadian National Railways has done. I say that very strongly. It has a good pension plan for those who are now in the service. But I still feel that it is a matter of real regret that it has not met the position of those people who do suffer—Mr. Gordon did not like that word last night nevertheless I use it again—those people who still suffer a real hardship because of these very low basic pensions.

I would like to put one question to Mr. Gordon. In the hope that some of us have that something is going to be done by the end of this session with regard to the position of retired civil servants, will that have any effect on the thinking of the Canadian National Railways?

Mr. GORDON: I would not like to answer a hypothetical question. I would like to see what is to be done. Certainly any new development in the field of enterprise would receive consideration by the Canadian National Railways. We keep ourselves up to date. We have in the field of employee benefits something in which we are further ahead than most. That was the result of our pension plan revision in 1952. One of my first acts when I went to the railway in 1950, was to make a very careful survey of the pension plan.

I convinced our board of directors that the time had come to modernize it. And if there is to be new thinking in the field and new standards developed which appear sensible, and if they apply generally, I would say that the Canadian National Railways would be interested in the plan.

Mr. KNOWLES: I shall keep my fingers crossed!

Mr. FULTON: You spoke in your earlier remarks of the need to consider the position of other retired personnel in receipt of pensions; and employees or previous employees of other organizations, in the light of what you might consider proper to do. Now I realize that the Canadian Pacific Railway is not before this committee. But following along that line, have you had a discussion —has your company had a discussion with them with relation to this whole problem of pensions and are you in a position to say? I know that Canadian Pacific pensioners—some of them—are agitating with their company for a revision. Are you in a position to say what the relative position is with respect to the two companies?

Mr. GORDON: The basic difference between the Canadian Pacific and the Canadian National is this: that their plan is a contributory and a compulsory one, while our plan has this elective or free pension, and it is a voluntary one. In short, we cannot force our men to come in. That is very serious in regard to a pension plan because it raises an actuarial problem in trying to estimate the amount of the benefit.

So when we made our 1952 plan we split it into two sections, part one and part two. Part one is more or less a continuation of the old plan which provides a basic pension and gives an option to the person to increase it; and if he increases it up to the amount of five per cent the company will match his contribution. And then there will be a sum of money at the end of his career with interest, which is calculated in it.

That part one, apart from some minor variations, is the same thing that was in force around 1935. But in 1952 when we modernized our plan, there were new benefits for dependants, and we said to everbody that they had the option to transfer their rights into part two. But if they did so they then undertook to make contributions in accordance with that plan.

In other words, they cannot "opt" in and then "opt" out. They must make up their minds. So today when a person comes into the service anew he still has an option after the specified number of years and the other parts of the formula. But if he contracts himself into part two, he is then obligated to pay the contributions which we take from his salary.

For that reason I say this is a voluntary and optional arrangement, and it makes an appraisal of the plan very difficult when compared with that of the Canadian Pacific. But I can say in general with respect to benfits which attach to part two that we find that the new benefits are just as adequate as those of the Canadian Pacific.

Mr. FULTON: Did you in your 1952 revised scheme help the pensioners towards improving their position?

Mr. GORDON: Yes, we did. But we took the point of view that although it was a very unusual thing to do, yet we would do it, and we recognized the moral duty. We said to the people who had contributed to the fund that we would recognize that the dollars which they had contributed would bring them as good a benefit as the dollars which were being contributed by employees in the service. We then gave them an option to put back over whatever period of years it was applicable an amount of money to bring it up, to compare it, and to give them equal benefit.

Mr. FULTON: I thought it was impossible then.

Mr. GORDON: Wait a minute I have not stated that correctly; I have not put it correctly, I would like to strike that last sentence out with the permission of the committee. What we did for the pensioners was to let them decide to switch from part one to part two so that the money which they had contributed plus what the company had put up for them would then produce the same type of benefits that were available to current employees in part two.

It was considered by many an advantage to pick up the option. It may be that many did not pick up because they did not have dependants. They might feel that way about it. But a great many did switch and they found it to be to their advantage.

Mr. FULTON: It was impossible at that time, was it not, for them if they were in receipt of a non-contributory portion of the pension, that is, in receipt of the basic $25 per month. Am I correct in my understanding that it was impossible for them to improve their position?

Mr. GORDON: That is right. If they had elected not to contribute, they had no pension money accumulated and therefore there was nothing to transfer into the revised pension fund. What we did was to include the pensioners on the option offered to the current employees who were contributors.

Mr. KNOWLES: On that point you said that you felt that recognition should be given to the value of the dollar of those who had contributed.

Mr. GORDON: Yes.

Mr. KNOWLES: I think you should give recognition to the value of the service of those who had earned their $25 pension.

Mr. GORDON: We gave them exactly the same recognition as we gave the people in our employ who were contributors to the fund. It was only the people who elected to become contributors to the fund that were given this option. That was an important thing to do. There are 53 per cent of our employees today who have sworn off any benefit, and I cannot understand why they won't take it. It is there and available at a very low cost. But there are 53 per cent of them totalling in number 61,745 employees in our service today who are not taking up their rights and I do not understand it. I just do not understand it!

Mr. HAHN: Are you suggesting that they have an opportunity at any time to become contributors to the pension scheme.

Mr. GORDON: Yes; according to the rules of the plan they can decide to join part one or to join part two.

Mr. HAHN: You say that 61,745 can do it today if they so wish.

Mr. GORDON: Yes, right now.

Mr. FULTON: What about those who retired before on the basic pension only?

Mr. GORDON: They have lost out.

Mr. FULTON: To complete the picture I am not quarrelling with the question from a moral point of view; but would I be correct in saying that the new amendment made in the Canadian Pacific Railway pension plan would in fact benefit all their pensioners, whereas the changes made in your plan would not benefit or do not benefit those who had previously only taken the basic pension?

Mr. GORDON: Yes, and for this reason: I see your point and it is a subtle one; but the test for it is the same yardstick, because the Canadian Pacific Railway is giving a change of benefits to all the people who are contributors and we are doing exactly the same thing. It so happens that they did not have any who were non-contributors because their fund is a compulsory one.

Mr. KNOWLES: It has been compulsory since 1937. Previous to that it was a non-compulsory plan.

Mr. GORDON: Yes. I believe so.

Mr. BYRNE: On the question of the status of non-contributors, have you any figures on that subject?

Mr. GORDON: You mean on the married status?

Mr. BYRNE: Yes.

Mr. GORDON: No, we have no figures to show whether they are single or married.

Mr. BYRNE: Have you any figures to show how many of the contributors come under the old age security program?

Mr. GORDON: Yes. In 1952. when our new plan went in concurrently with old age security, the number of our employees who were contributing dropped to 38.3 per cent. The number of contributors in 1951 was 42.8 per cent. In numbers there were about 2,400 withdrawals. In other words, the number of contributors decreased by 2,400 despite the fact that between those years there was an increase in our staff of 6,800 eligible employees.

Mr. BYRNE: But it has now gone up?

Mr. GORDON: Yes. 46.7 per cent. It is creeping up a little.

Mr. CARTER: I would like to ask Mr. Gordon what is the position of the employees of the Newfoundland Railway who retired before they could get any benefit from the revised pension scheme which came into effect, I think in 1952?

Mr. GORDON: The Newfoundland situation almost defeats me. It is so complicated. Let me read this because I cannot attempt to claim that I am so familiar with it that I can explain it. I know what is being done but it is so complicated that I am unable to explain it. Clause 39 of the terms of the union reads as follows:—

> 39. (1) Employees of the government of Newfoundland in the services taken over by Canada pursuant to these terms will be offered employment in these services or in similar Canadian services under the terms and conditions from time to time governing employment in those services, but without reduction in salary or loss of pension rights acquired by reason of service in Newfoundland.
>
> (2) Canada will provide the pensions for such employees so that the employees will not be prejudiced, and the government of the province of Newfoundland will reimburse Canada for the pensions for, or at its option make to Canada contributions in respect of, the service of these employees with the government of Newfoundland prior to the date of union, but these payments or contributions will be such that the burden on the government of the province of Newfoundland in respect of pension rights acquired by reason of service in Newfoundland will not be increased by reason of the transfer.
>
> (3) Pensions of employees of the government of Newfoundland who were retired on pension before the service concerned is taken over by Canada will remain the responsibility of the province of Newfoundland.

Mr. CARTER: Would you repeat the words at the end?

Mr. GORDON: "Pensions of employees of the government of Newfoundland who were retired on pension before the service concerned is taken over by Canada will remain the responsibility of the province of Newfoundland."

Mr. CARTER: You have some who are retired perhaps two or three years after confederation.

Mr. GORDON: Yes.

Mr. CARTER: How are their pensions being computed?

Mr. GORDON: In accordance with these principles I have read. To try to take a specific case and follow it through I would have to sit down with you and show you the calculations. But, in general, service was recognized for pension purposes under the terms of union and a division of cost of that was reached between the C.N.R. and the province of Newfoundland.

Mr. CARTER: You spoke about that 61,745, or 53 per cent who did not take advantage of your generous scheme. Now, have you figures for Newfoundland as to how many of the Newfoundland employees who could really profit from that scheme did not take advantage of it.

Mr. GORDON: I doubt if I have it broken down. That would require a special analysis.

Mr. CARTER: Your retiring age is sixty-five?

Mr. GORDON: Yes.

Mr. CARTER: And a man must have ten year's service in order to get the benefits?

Mr. GORDON: Under Part I of our fund a man who elects to contribute makes his contribution and we do not match those contributions until he has been ten years in the service and then we match whaever contributions he has made.

Mr. CARTER: Do you macth them retroactively?

Mr. GORDON: After the ten years we then match up to the amount of his contributions, not exceeding 5 per cent. He is entitled to make contributions up to 10 per cent of his wage and we, after the ten year period, will match it up to 5 per cent. Under Part II if he elects to be a contributor he can start at once and pay for his pension and the calculation of his pension will start as from that date.

Mr. CARTER: But on retirement, if he were fifty-six and would only be able to make nine contributions to the pension fund you would not match any of his contributions under Part I?

Mr. GORDON: That is right.

Mr. CARTER: So it would not pay him to do it?

Mr. GORDON: Each person must consider his own situation.

Mr. CARTER: Under Part II if he pays the contributions then you match them?

Mr. GORDON: No. There is not a matching under Part II; there is an underwriting. In other words the company underwrites the benefits, whatever the cost may be, and the individual pays 5 per cent of his salary and gets specified benefits in the fund, which is spelled out, and whatever the cost may be the company meets it.

Mr. CARTER: Unless he can see nine years' service with the C.N.R. there is not much point in his taking advantage of the C.N.R. pension scheme.

Mr. GORDON: I would not say that. It depends on the man's individual pension. In Part II there is a widow's and children's benefit. The widow receives roughly half his pension and there is an allowance for children.

There is something else in this part. This reads:

> Subject to section 7, a Newfoundland employee who remains or who elects to become a member under Part II of the pension plan as provided in section 5 may receive, in lieu of and in substitution for all other pension and retirement benefits, benefits computed as provided in Part II of the pension plan, in respect of his entire service, and for that purpose service with the Newfoundland government in respect of which the province is obligated to pay a pension shall be combined with allowable service with the company after March 31, 1949; provided that where such an employe voluntarily retires before age sixty-five until he reaches age sixty-five only the portion of such pension that is payable by the company in respect of company service shall be payable to him. If, however, he should die before he reaches sixty-five survivor benefits shall be paid as provided for in Part II of the pension plan.

That gives an illustration of not only the complication but also the type of individual choice which each individual has and how he can tailor his decision to meet his own circumstances. Each man must think about his own responsibilities before he can make an intelligent decision as to what is best for him. We provide service in that respect. Anyone can come in and discuss it with the pension advisors and we will always advise him what is best for him.

Mr. CARTER: When one of these Newfoundland employees retires now and has 20 years' service with the Newfoundland Railway before confederation and nine years' service afterwards with the C.N.R. do you compute his whole pension on the pre-confederation basis?

Mr. GORDON: We compute the pension on the basis of recognizing what is due to him under the terms of union, and having arrived at what his pension is we then make a claim on the province of Newfoundland for that portion which is their burden under the terms of union, but the man himself has nothing to do with it.

Mr. CARTER: I know that. That Newfoundland service was a non-contributory service.

Mr. GORDON: Yes. His service with the Newfoundland government railway, yes.

Mr. CARTER: Your $25 a month does not apply to them at all?

Mr. GORDON: No.

Mr. CARTER: That would be based on whatever——

Mr. GORDON: On C.N.R. service under the rules.

Mr. CARTER: Yes. But that part of it would be computed by you and not by the Newfoundland government.

Mr. GORDON: Well, we do the calculations and the government of Newfoundland of course audits it, but they are responsible for it. If he has any pension payable to him under the provisions of the Newfoundland government plan then that is protected. He gets that in one way or another. It is either part of our payment which we in turn collect from the province of Newfoundland or if he is not eligible for a pension under our rules, he receives in any event from the province of Newfoundland.

Mr. CARTER: This is the real question I am trying to lead up to. As you know there was a little worry around New Years because of lay-offs. When people are laid off the C.N.R., of course they lose their pension rights because if they are no longer employees they have no pension rights?

Mr. GORDON: No. They do not lose their pension rights. All that happens with a lay-off is that it might affect their allowable service in due course. When they are laid off and come back into service the period of service they are on paid employment in the company is accounted for pension service.

Mr. CARTER: But if they are not re-employed—

Mr. GORDON: Then they are not, of course, our employees.

Mr. CARTER: That is too bad because the terms of union guaranteed there would be no loss of pension rights, but there is a loss of pension rights if an employee is discharged from his employment after confederation. When he loses his employment he loses his pension rights.

Mr. GORDON: There is a similar situation if a man leaves voluntarily and lots of them do.

Mr. CARTER: Then we would not have much of an argument.

Mr. GORDON: There is nothing in the terms of union which guarantees employment in perpetuity for anyone.

Mr. CARTER: But that did guarantee no loss of pension rights?

Mr. GORDON: In respect of the rights, they are spelled out. If you look at the pension rights you will find it refers to a period of employment. They are paid a pension based on the period they are employed by the government of Newfoundland, and the government of Newfoundland I repeat at any point or any time also laid off employees when it suited their purpose. So the pension rights are not affected any worse in our employment than they would be in the employment of the Newfoundland government.

Mr. CARTER: I realize at any time before confederation a person could have lost his pension, but on the other hand there is another interpretation which could be attached to it. In the case of the Newfoundland employee who worked say thirty years with the Newfoundland railway and then loses his job because the C.N.R. laid him off, is he eligible for the Newfoundland part of his pension?

Mr. GORDON: He would be eligible for whatever portion of the Newfoundland pension is applicable to his circumstance. But I do not like to let pass the illustration of a man with thirty years' experience being laid off. I do not think there would be many cases.

Mr. CARTER: I have had several letters during the year and I interviewed some of the representatives of the people.

The CHAIRMAN: Mr. Hahn has a question on Taxes, Rents, Other Income and Fixed Charges.

Mr. FOLLWELL: Mr. Chairman, before you leave that, might I ask Mr. Gordon if, under part two, you still purchased an immediate annuity for each individual employee?

Mr. GORDON: No, absolutely no.

Mr. FOLLWELL: No?

Mr. GORDON: Absolutely no. What happens, under part two is, as I say, if you read part two of the pension fund, you will find, spelled out in detail, that the benefits are payable to the employee, on retirement, and those are the benefits we pay to him. The company is responsible for the financing of those benefits.

Mr. FOLLWELL: You no longer have a ceiling of five per cent contribution?

Mr. GORDON: No. Under part two we pay a very much greater contribution than that.

Mr. FOLLWELL: Yes, but under part one you had a permissive opportunity for the employee to go up to ten per cent.

Mr. GORDON: Yes, and we matched it, under part one, up to five per cent.

M. FOLLWELL: Yes.

Mr. GORDON: After the ten year initial period.

The CHAIRMAN: Mr. Hahn.

Mr. HAHN: The question I have, Mr. Gordon, is in respect of rental of cars.

Mr. GORDON: We are back to the report, are we?

Mr. KNOWLES: Do not sound so relieved.

Hon. Mr. MARLER: Were you not talking about the report, Mr. Knowles?

Mr. HAHN: On page 29 I see there, equipment rents, and joint facility rents, and there is a marked improvement in each of the years in respect of miscellaneous rents. What portion of that is exchange rental on cars? Is that our total income from the rental of cars between the various lines?

Mr. GORDON: We gave that yesterday, but I can repeat it if you wish.

The CHAIRMAN: It is all in the record of yesterday.

Mr. GORDON: You will find it in yesterday's record.

Mr. HAMILTON (*York West*): $35 million paid out and $25 million taken in, and $10 million difference.

Mr. HAHN: That is fine, but the figures were not important. What is your arrangement with the Pacific Great Eastern Railway with respect to cars?

Mr. GORDON: The same as with any other railway.

Mr. HAHN: Does that include the use of the bridge which crosses Burrard inlet? How does your rental compare there, for a charge per car?

Mr. GORDON: The crossing of a bridge has nothing to do with the charge per car. There is a per diem payment made by the railway, who uses any railway's cars, no matter where it is in use. It does not matter.

Mr. HAHN: That is set by statute, is it?

Mr. GORDON: No, it is a railway association agreement.

Mr. HAHN: How would the per diem cost charge compare, let us say, with the *P.G.E.* coming across Burrard inlet, and the Great Northern crossing the Burrard inlet?

The CHAIRMAN: It would not matter where they were.

Mr. HAHN: It would not matter whether they were crossing Burrard inlet or where they were?

Mr. GORDON: No, we do not make any special charge by reason of the fact that the *PGE* crosses a bridge, or anything. It is the use of the car, no matter where it is.

Mr. HAHN: Fine.

The CHAIRMAN: Are there any questions under that heading?

Mr. HAMILTON (*York West*): I have a question in respect of paragraph 25. Do you have any income from oil rights, by any chance, in western Canada?

Mr. GORDON: Yes, we have. Do you want to know our income in oil royalties?

Mr. HAMILTON (*York West*): Yes.

Mr. GORDON: Our total royalties for the year 1956 covering oil and gas rates was $267,950.

Mr. HAMILTON (*York West*): And this $267,950, is that a type of continuing income, Mr. Gordon?

Mr. GORDON: Yes, it is the same kind of a formula that is general, and typical of the arrangements where they bored on our land. It covers the royalty. It goes through certain phases. Frst of all, we got an exploratory income, which gives them the right to explore, and then having found oil, it usually works out at 12½ per cent, if I remember correctly, on gross production.

The CHAIRMAN: Shall the heading "Taxes, Rents, Other Income and Fixed Charges" carry?

Mr. HAMILTON (*York West*): No, Mr. Chairman. Having listened to that last series of questions, maybe I can get three questions in here.

Does the company have acreage in areas where you think they will become producing areas for oil and gas, in addition to what you are getting now?

Mr. GORDON: Do I think there will be?

Mr. HAMILTON (*York West*): Yes.

Mr. GORDON: Your guess is as good as mine.

Mr. HAMILTON (*York West*): Do you have any blocks of land in areas where there is exploration going on?

Mr. GORDON: We have certain areas where we are hopeful.

Mr. HAMILTON (*York West*): You are looking, maybe, for a greater income from this?

Mr. GORDON: Yes, I would hope so.

Mr. HAMILTON (*York West*): You do not have any ideas, no guess at all?

Mr. GORDON: No. If I had, I would not be working for the railway, I can tell you.

Mr. HAMILTON (*York West*): You would go into the oil business.

The CHAIRMAN: Shall this heading carry?

Mr. GORDON: Perhaps I should tell you in respect of your question there, that we have 3,461,000 acres that are subject to exploration in the three provinces.

Mr. HAMILTON (*York West*): And you have the mineral rights to those 3,461,000 acres?

Mr. GORDON: Yes.

Mr. HAMILTON (*York West*): I see.

Mr. HOWE (*Wellington-Huron*): Mr. Gordon, I understand that in respect of the terminal at Owen Sound, the sidings and switching privileges are controlled and owned by the C.N.R. I am also told that most of the grain that is shipped out of there goes by C.P.R. I have been wondering why that is so, when there is C.N.R. traffic out of Owen Sound?

Mr. GORDON: Do you know the answer to that, Mr. Dingle?

Mr. DINGLE: It does not sound right. I have not checked it.

Mr. GORDON: No. The only answer I can give you now is that it does not sound right. We would have to check on the specific circumstances. Is there an elevator at Owen Sound?

Mr. HOWE (*Wellington-Huron*): Yes, there is an elevator.

The CHAIRMAN: Who owns the elevator?

Mr. HOWE (*Wellington-Huron*): I do not know who owns it.

Mr. GORDON: There may be some quirk whereby the C.P.R. owns the elevator and they direct the traffic. I cannot give you the answer now. I have never come across that, but we will find out and let you know.

The CHAIRMAN: Shall the heading carry?

Mr. HAMILTON (*York West*): What was the major reason for the drop of $1.3 million in fixed charges, Mr. Gordon?

Mr. GORDON: Oh, that is due to the fact that we were able to redeem $76.8 million in public issues which fell due during the year, and borrowed short term advances from the government at a lower interest rate.

Mr. HAMILTON (*York West*): Then this $77.4 million were fairly old and and at a high rate?

Mr. GORDON: The $76.8 million were in public hands. What was the rate of interest on them? Page 33, I think, shows you the transactions. If you look at page 33, you will see the ones that were—there should be a total in there. The total there shows the actual ones that were redeemed. The big one is $67,368,000 which had an interest rate of four and one half per cent.

The CHAIRMAN: Yes. Shall the item carry?

Item agreed to.

"Hotel Operation".

Mr. FULTON: Last year, Mr. Gordon, I asked you if you had in contemplation further sales or disposition of hotels, and you told us at that time that you did not. Is that still the situation?

Mr. GORDON: We have no discussions going on, leading to the sale of any of our hotels at this moment.

Mr. FULTON: Do you feel that with the disposition you did make, you have now put your hotel system in the shape it should be in respect of hotel operation in conjunction with a railway?

Mr. GORDON: We sold the hotels because we did not feel they were of a character and type up to the standard of operation that we wished to maintain. The remaining hotels, however, are all of that standard.

Mr. FULTON: When does the agreement in respect of the joint operation of the Hotel Vancouver expire? It is pretty soon now, is it not?

Mr. GORDON: I have not got the information. It is roughly 20 years—21 years from 1938.

Mr. FULTON: That makes about two years to go, does it not?

Mr. GORDON: Yes, I know what I am thinking of. There is a right for extension for a further 21 years, after the expiration of the first 21 years.

Mr. FULTON: Is that an absolute right, or is it subject to the agreement of both parties?

Mr. GORDON: It is an absolute right.

Mr. FULTON: Have you any indication of the desires of the other party to the agreement?

Mr. GORDON: I would think they are very anxious to continue it. We have certainly no reason to think otherwise.

The CHAIRMAN: Are there any further questions on hotel operations?

Mr. CARTER: Can Mr. Gordon say whether the Newfoundland Hotel operated at a profit last year?

Mr. GORDON: Yes. The profit after interest and depreciation was $110,950.

Mr. BALCER: Can you give us the figures for the Chateau Laurier now?

Mr. GORDON: I think it would save time to table the whole table. Would that be satisfactory? It is as follows:

CANADIAN NATIONAL HOTELS, LIMITED

Summary of Operating Results

Year ended 31st December, 1956

	Profit or (Loss)
Bessborough	$(112,597)
Charlottetown	(21,303)
Chateau Laurier	252,430
Fort Garry	14,475
Jasper Park Lodge	79,059
Macdonald	450,707
Newfoundland	110,950
Nova Scotian	97,480
Vancouver (rental income to C.N.R.)	99,408

It will be noted that in respect to the Chateau Laurier property, the figure is $252,430.

The CHAIRMAN: Shall the item carry?

Mr. KNOWLES: Can you tell me when you expect the Queen Elizabeth, in Montreal, to be completed?

Mr. GORDON: In February or March, 1958. We hope to start opening it about the early part of April.

Mr. FULTON: Was it set back at all by the fire? Have you had a report on that?

Mr. GORDON: The report I have is that the damage was relatively slight. It took place as a result of a space heater, which was used by the contractor for drying purposes, but our chief engineer reports this morning that it will not set back the date of completion.

Mr. FOLLWELL: Mr. Chairman, I wonder if we could have a report on the Nova Scotian Hotel?

Mr. GORDON: A report on it?

Mr. FOLLWELL: Just the operation.

Mr. GORDON: The profit was $97,480.

Mr. FOLLWELL: Where does it stand in comparison with the others, in regard to profit?

Mr. GORDON: I do not know just what you mean by that. Do you mean on a per-room basis?

Mr. FOLLWELL: No; is it first, fourth, ninth, tenth, or what?

Mr. GORDON: In terms of revenue, you means? I can give you that.

Mr. FOLLWELL: Yes.

Mr. GORDON: It stands fourth.

Mr. FOLLWELL: Thank you.

Mr. HAMILTON (*York West*): Is this decrease in the number of rooms, or at least in the number of guests, attributable to the decrease in the number of rooms as a result of the sale of these hotels, or is that a general decrease?

Mr. GORDON: Yes, the comparison is a proper comparison. In other words, the sale of these hotels does not affect the comparison. We are only comparing the same hotels, you see.

Mr. HAMILTON (*York West*): Yes.

Mr. GORDON: That is the number of guests accommodated at the seven year-round hotels. We are only comparing these hotels, and what happened there, so that you get a proper comparison with what happened this year.

Mr. HAMILTON (*York West*): Your actual trade on the railway has increased during that time. Is there any special reason why the hotel end of the business would drop in the number of patrons?

Mr. GORDON: We do not regard that as a very serious drop. There are a number of reasons; for one, the old wing of the Chateau was out of business for a while, for repairs, and different things of that kind. But, we do not regard the drop as very serious.

The CHAIRMAN: Shall the item carry?

Mr. BALCER: As you are very well aware, according to the Montreal papers, there is on the march again a campaign to change the name of the hotel in Montreal to the Chateau Maisonneuve. Personally I am against the use of a name of the royal family for a commercial enterprise. Also, there is a pretty strong argument that we should keep the French character of the city of Montreal as much as possible. I think that is one of the big purposes of this company. I was wondering what your arguments against that are.

Mr. GORDON: This is a question on which I have to choose my words with care, I think.

Hon. Mr. MARLER: Just the way Mr. Balcer has, I would say.

Mr. GORDON: The decision of the board of directors, which was taken in naming of the hotel "The Queen Elizabeth", was based generally on a belief that it of all names would symbolize the unity between the two language groups in our country; that the crown was a symbol of that unity, and therefore the name of the Queen was the most appropriate.

In making that decision, our board felt that we were choosing a name that would not give rise to any possibility of controversy, for the reason I mention. We were very elated I might say when we, in due course, received Her Majesty's gracious permission to use her name.

The second point that is worth mentioning is that we immediately arranged to have the name in both languages. The name of the hotel is always referred to, among English speaking people, as the Queen Elizabeth. It is equally correct to speak of it as Le Reine Elizabeth—equally correct—and you will find that when the building is completed the name will appear in both languages. Our feeling is, rightly or wrongly, that it is much more important to have the fact of bilingualism in the province of Quebec recognized, than merely emphasizing the one language. The important thing to Quebec, in our opinion, is the fact of the use of the two languages and we felt in respect of its appeal to tourists and foreign visitors and so forth, that the significant thing to them too, was to emphasize the use of these two languages.

We have in the course of constructing the hotel paid a very great deal of attention to emphasizing the effect of French Quebec history, on the decor and the choice of furnishings in the rooms of the hotel. We have paid very special attention to that, although we have not had an opportunity, of course, to get the public reaction to that or to demonstrate how far we have gone in that respect. We did, however, take the precaution of setting up a decoration committee consisting of most distinguished French-Canadian representatives including M. Wilfrid Gagnon, Mme Georges-P. Vanier, M. Jean-Marie Gauvreau, M. Paul Gouin, and two of our staff, M. A.-L. Sauviat and Mr. Robert Ayre. All these are people who are closely in touch with the arts and have considerable experiences of cultural life generally, and they formed a special committee for the purpose of advising us on how to get this atmosphere in a way that would be not only interesting, but constructive and which recognized the desire for that sort of thing in the hotel. Now it has always seemed to me that the agitation which has developed represents a very small minority group, organized for the purpose of keeping this type of grievance alive. That particular organized group has done the same sort of thing not only in connection with the hotel, but they have done it in connection with many other matters and, so long as you have a group dedicated to that kind of thing, then you are always going to get a certain degree of agitation.

I can say definitely my considered opinion is that the great majority of the reasonable people of the province of Quebec find the name quite acceptable and recognize that in giving it bilingual form the two interests of the province of Quebec, in the use of both languages are discharged. I end by saying that the fact of the hotel in Montreal is a great boon to the Montreal community. It brings business to Montreal of a character that has never been there before; very valuable business which will spread out from Montreal through the province. I have never been able to understand why that is not something for which we should get some credit and some recognition instead of an argument along the lines that I have been discussing.

Now it has been said, rather unkindly, I think, that I have been trying to placate this group in the choice of another name. That had nothing to do with it; we chose the name Place Ville-Marie as a perfectly appropriate one in terms of a name to recognize a place in Montreal. We chose the name deliberately as an appropriate thing to do, and the same may be said with reference to the choice of the name of the hotel, namely, that we chose that name because we thought it was the most appropriate name to symbolize the unity of the two races. I should add, as Mr. Marler is reminding me, that the choice was made by our board of directors at the time when the name of the Queen was particularly in everyone's mind because of the Coronation, and we felt that it would be a very interesting historical fact to be able to recall, as we will recall from time to time, that the name of the hotel symbolizes that the hotel came into being during the year of the Coronation.

Mr. BALCER: There is no intention of changing it at the present time, then?

Mr. GORDON: No, no intention at all.

Mr. BALCER: There has been some indication that the Queen might visit Canada next year; are you contemplating inviting the Queen to open the hotel?

Mr. GORDON: That has not received consideration. I have no knowledge, as a matter of fact, as to whether there is a definite visit planned or not. I do not know.

The CHAIRMAN: Is this paragraph to be carried then?

Mr. KNOWLES: I would like to ask, not as facetiously as it might seem, is the name Hilton then not to be associated in any way with the proper name of the hotel?

Mr. GORDON: With the proper name? Absolutely not!

Mr. KNOWLES: I am referring to the publications that will go out, the letterheads and everything else.

Mr. GORDON: That is right.

Mr. KNOWLES: The name Hilton will not be associated in any way then?

Mr. GORDON: It will not form part of the name. The name The Queen Elizabeth or Le Reine Elizabeth is the name of the hotel. The Hilton management will not enter into that aspect. The general formula we use in our advertising is Canadian National Railways Hotel under the management of Hilton (Canada) Limited. The hotel is under the ownership of the C.N.R. and it will always be so described.

Mr. BALCER: Will Hilton supervise the employment and the personnel of the hotel?

Mr. GORDON: Oh yes, that is part of the managerial duties.

The CHAIRMAN: Now is this paragraph on "Growth and Progress" to be carried?

Mr. KNOWLES: Before you leave that, as to labour relations, is that part of the managerial duties?

Mr. GORDON: That is part of the managerial duties, too, yes. They will have to do with all such negotiations with labour as may be called for. They will settle such matters with the unions as may be involved.

The CHAIRMAN: Paragraph 13, "Growth and Progress" is carried.

Mr. BYRNE: Has the C.N.R. been making any studies on the possibility of a railway line being built to open up the northern part of the Province of Alberta and The Northwest Territories to the Pine Point area?

Mr. GORDON: You are speaking of Pine Point specifically, Mr. Byrne?

Mr. BYRNE: Yes.

Hon. Mr. MARLER: I wonder if we could deal with that when we come to the paragraph on "New Lines" on page 12.

Mr. BYRNE: Yes, if you wish.

The CHAIRMAN: I think that is the proper place for it.

Hon. Mr. MARLER: We do not want to have to discuss the same kind of thing in two different categories.

Mr. KNOWLES: Still under the heading of "Growth and Progress", might I ask Mr. Gordon whether the C.N.R. has given any consideration to the Monorail proposition. Would that be "Growth and Progress"?

Mr. GORDON: We have over the years had all these developments under review and we have looked at the monorail matter. We are of the considered opinion that there is no place in Canadian National Railways activities where the monorail would be beneficial or better than what we have.

Mr. FULTON: You have been out to British Columbia from time to time and have had discussions with the officials of Pacific Great Eastern and the Government of British Columbia. Did you at any time investigate specifically the desirability of running a line northwest from Prince George?

Mr. GORDON: Of running a line north from Prince George?

Mr. FULTON: Northwest.

Mr. GORDON: Up the Trench, do you mean? We have had that under consideration, yes.

Mr. FULTON: And did you arrive at any definite conclusion upon which you are in a position to report to this committee?

Mr. GORDON: No, no because the P.G.E., as it stands now, is extending north of Prince George and we see no need for a duplicate line.

Mr. FULTON: Well it is not going through the Trench, is it? It is going to the Peace River area, is it not?

Mr. GORDON: Well they are going north at the same time.

Mr. FULTON: North and west? I am speaking of the Rocky Mountain Trench which would be north and west, that is the one that is under consideration in connection with Pine Point is it?

Mr. GORDON: We have nothing of that kind in contemplation, no.

Mr. FULTON: Have you considered it or sited it as a project?

Mr. GORDON: We have had a great number of studies made. I am not quite sure of exactly what you have in mind but we have had the area under examination from time to time, although we have no specific project in mind at the moment.

Mr. FULTON: Well I do not want to put words in your mouth because this is obviously a touchy problem but I will ask it in the form of a question. Have you studied this matter and reached a conclusion that it was not an attractive development from the point of view of the C.N.R.?

Mr. GORDON: I would put it this way, that over the years there have been a number of studies made of the area that you have in mind, and we have always reached the conclusion that there did not seem to be sufficient in the way of developmental traffic to justify a recommendation in terms of the capital cost. Now that has been the view over the past years, I am not prepared to say that that is the current view, but we have specifically an examination—and I am afraid I have to go back to Pine Point—where we have specifically examined as between ourselves and the C.P.R. the matter of bringing up to date a survey of the potentialities of a line in that area.

The CHAIRMAN: Then is the paragraph on "Growth and Progress" now carried?

Agreed to.

The CHAIRMAN: We will now proceed to the paragraph on "Dieselization".

Mr. CARTER: I note in paragraph 32 that you have now completed the dieselization of the Newfoundland operations. What is the life of the equipment?

Mr. GORDON: Well, we do not know because we have never run long enough to know what the life is. For the purposes of depreciation only, we had estimated the diesel life as 25 years. That is the bookkeeping appraisal of the life, but we have that under reappraisal now and will perhaps change it from time to time. We know of no railway which has had the experience, so far, of running out the life of a diesel.

Mr. CARTER: Well, under this heading of "Growth and Progress", as you know, we look forward in the next 20 years to a doubling of our population, at least 800,000 people instead of the 400,000 we now have, and the development of resources that is taking place would indicate that the bulk of the increase of population will be in the central part of Newfoundland and in the western regions. We do not think, having in mind this expansion in growth, that it could be adequately served by a narrow-gauge railway in the first place, or in any case, by any railway following the present route. So, while we know you are spending money to bring up to date and modernize the present system, we wonder if we have to wait for 25 years or 20 years before you will do anything about meeting that need.

Mr. GORDON: Well I think perhaps the best answer I can give you on your general statement is to ask you to read paragraph 70 of the report.

> A special committee of senior headquarters and district railway officers was established to study the technical aspects of Newfoundland's transportation requirements and to formulate long-range plans for rail and water services in keeping with the province's economic growth.

Mr. CARTER: Yes, but Mr. Gordon, irrespective of what these people report, you are making a capital investment in road improvement and equipment which you say will last at least a life of 20 years.

Mr. GORDON: That does not tie us; that does not tie us in any way. You asked me the theoretical life of the diesel but that does not mean to say that we have got to keep that particular diesel for 25 years.

Mr. CARTER: No.

Mr. GORDON: Take the purely theoretical situation, let us say, that there was a standard-gauge railway for Newfoundland. If we make improvements we will merely sell the narrow-gauge locomotives we have—that is simple.

Mr. CARTER: Well if you think it is simple to get rid of them—

Mr. GORDON: Oh yes!

Mr. CARTER: We are not going to be stuck with them?

Mr. GORDON: No.

The CHAIRMAN: Are there any other questions on the paragraph on "Dieselization"?

Mr. HAMILTON (*York West*): Your remarks about the depreciation schedule on diesels; and your auditor's report says this about the retirement of your steam engine:

> In the case of steam locomotives, which according to present plans will be replaced by diesel locomotives within the next decade, it is predicted that a deficiency in accumulated depreciation will materialize which could amount to as much as $30 million.

I want to ask Mr. Gordon if any amount included in the depreciation you have shown in the report has been set aside to take care of that $30 million?

Mr. GORDON: No. It has not. It is a question of particular life now. I might say that we discussed it at some length this year and made representations to the government and we pointed out the problem.

We pointed out that it is a basic fact that in the course of the next five years the whole class of steam locomotives would be removed and that we did not have earmarked an amount of depreciation to take care of it. In the discussion it was found that the statute as it stands now provides no legal authority for a special reserve of that kind. But we have the matter very definitely in mind and during the course of this year we shall have a further discussion with the government in an endeavour to see what can be done and to consider if there is a need to broaden that right in view of the auditor's recommendation. It may require in legislation. I do not know at the moment.

Mr. HAMILTON (*York West*): Do you mean that there is a permanent impediment to your setting up of this particular fund?

Mr. GORDON: No. It only refers to this grant.

Hon. Mr. MARLER: It only refers to the time when they charge the depreciation.

Mr. HAMILTON (*York West*): Yes. In other words, the indications are that you will have to have some expanding legislation to cover this particular problem?

Mr. GORDON: I do not know. That is a point to be considered. First of all we will have to—in the light of the auditor's comment there—figure out what we want to recommend as management, and then the government will have to decide whether there is a legal authority for it. Then the Board of Transport Commissioners would be involved because they have set the depreciation formula.

Mr. HAMILTON (*York West*): How many years did you say would elapse before all the steam engines would be retired? Did you say five years?

Mr. GORDON: I took that figure at random. I do not know. I would say not more than five years although it might be three years or four years. It depends in part on economic conditions and how fast we embrace dieselization. It might take longer too.

Mr. HAMILTON (*York West*): It might run anywhere from a minimum of 4 or 5 years to a maximum of 10 years?

Mr. GORDON: I would certainly say that 10 years was the maximum. I would hope for five years.

Mr. HAMILTON (*York West*): So this could range anywhere from $3 million to $6 million a year?

Mr. GORDON: It would be of that order, yes.

Mr. HAMILTON (*York West*): And if we are going to take that ccurse, that would be the amount deducted from this year?

Mr. GORDON: That is right, and it would be placed as a burden on operating expenses.

Mr. CARTER: If my friend Clarry Gillis were here he would want to be brought up to date on the progress of the gas turbine.

Hon. Mr. MARLER: Surely we cannot consider gas turbines as coming under the heading dieselization!

Mr. CARTER: Well, they are referred to here where it says ". . . the development of other forms of motive power . . ." in paragraph 38.

The CHAIRMAN: That is stretching the problem a bit. I think there are probably other items it could come under further on, or later on, such as service improvements. Could it not come under service improvements?

Mr. CARTER: Very well, as long as we get at it some other time.

The CHAIRMAN: All right.

Mr. HAMILTON (*York West*): How many employees do you still have working on steam locomotive maintenance? I see you have 2,724 on diesel. How many are there on steam?

Mr. GORDON: I do not think we could break it down specifically.

Mr. HAMILTON (*York West*): Are most of these men being given the familarization course?

Mr. GORDON: Yes. In paragraph 36 I make specific reference to it at the bottom of page 13 where you will see that we specifically refer to the number of men enrolled in those courses.

Mr. HAMILTON (*York West*): These are the same employees for the most part who are now presently steam mechanics?

Mr. GORDON: That is right. We give them familiarization courses so that they may turn over to the diesel service in whatever part it happens to be in.

Mr. HAMILTON (*York West*): I would like to ask one further question on paragraph 38. What is a diesel-hydraulic road switcher? What is the distinction between it and a diesel electric?

Mr. GORDON: They eliminate one phase. Let me see, I think we have that here. The statement reads as follows:

> The fundamental difference between this unit and those commonly used in North America is in the transmission of power from the engine to the driving wheels. Instead of electric transmission (a generator driven by the engine supplying electricity to motors geared to the driving wheels) a hydraulic transmission and mechanical gearing is used.

It is direct instead of going through.

Mr. HAMILTON (*York West*): In the diesel hydraulic the power goes directly to the wheels, the same as in an automobile engine, through a fluid clutch?

Mr. GORDON: That is right.

Mr. FULTON: With respect to the dieselization program and referring to the chart at the bottom of page 16, you show an increase in gross ton miles per freight train hours in 1956 as compared to 1952 and I would like to ask you to what extent this is a reflection of diesel efficiency and to what extent is it a reflection of merely increased traffic offering? If you are running longer trains because you have increased traffic, you will get the same results. What is your estimate of the main factors relating to this increase?

Mr. GORDON: Well, this is a productivity measurement of the railway. Everything we do is really measured as a matter of productivity, and everything we do goes into a meld of it. You have to include the fact that the diesel is a more efficient motive unit; and you also have to include what we are spending by way of improving our track and by way of improving our maintenance facilities. The whole question of the management approach is involved in the answer to the question you asked.

Mr. FULTON: The reason I put my question in that form is because in paragraph 38 you say ". . . . close attention is being given to progress in the development of other forms of motive power with a view to taking advantage of technological improvements as they become available."

Mr. GORDON: Yes.

Mr. FULTON: To what extent is improvement resulting from diesel efficiency, and to what extent is it resulting from increased traffic?

Mr. GORDON: I do not think you can take 100 per cent. If you start to take 100 per cent of increased productivity, what is the percentage that is created with the diesel locomotive efficiency? My answer is that I cannot answer it because there are too many other things involved. The fact that we have the diesel locomotive means that we have had to improve or change our passing sidings for example; we have had to rearrange our yard trackage; we have had to change our maintenance approach and so on. And it all comes out to a situation which I do not think we could analyze and say what percentage is merely attributable to diesels as such. There are other things. We improved signals, for example, although not necessarily arising from diesels. But we have improved signals and various other operating matters. All our work directed to improving our terminal handling and that sort of thing finally comes into increased efficiency.

Mr. FULTON: Since there has been trouble over this dieselization program perhaps I might get it in another way.

Mr. GORDON: What is the nature of the trouble?

Mr. FULTON: There has been trouble in this committee in past years as to whether you were justified in going 100 per cent for diesel. Do you think you could have shown this result if you had not?

Mr. GORDON: My answer is no. Considering what we have spent so far as we stand now, we figure that our accumulated savings from the time we started the diesel program in 1951 are in the order of $80 million. Now, that is an inflated figure because it includes large savings which come with the first part of the diesel program. We are now in a position where there would be a declining return in respect to new dieselization. It is still profitable. However we won't have as high a margin of profit in respect to the rest of it.

Mr. FULTON: I do not want to ask you an auditing question now, but in the light of those savings would it be so very serious if you did not have to take a big lump from your depreciation charges because of the retirement of steam locomotives?

Mr. GORDON: It is purely a matter of timing, and what appears to us that we should not have on our books, dollars representing a property investment, when the units represented thereby are no longer in existence. After all, that is the meaning of depreciation.

Mr. BYRNE: Have you sold any of the steam engines which are not now in service?

Mr. GORDON: Have we sold any? Have we sold any to India, no, I do not think we have sold any. There is not much market for them.

Mr. HAMILTON (*York West*): Do you save some of those steam locomotives to take care of an emergency?

Mr. GORDON: We have kept a number on that basis but eventually we shall get rid of them all.

Mr. HAMILTON: (*York West*): They will not be kept for a time of emergency?

Mr. GORDON: We shall eventually get to the time or stage when we shall have no facilities for the maintenance of steam locomotives because we shall have abandoned our round houses because there is no use in keeping them. It may well come about that we shall not have men who will understand steam locomotives.

Hon. Mr. MARLER: It is the same with driving horses.

Mr. HAMILTON (*York West*): How are you taking the depreciation rate now on the diesel locomotives? Are you on a 25 year basis?

Mr. GORDON: It is a straight life depreciation under the formula given to us by the Board of Transport Commissioners, and the 25 year life is what we estimate for diesels.

The CHAIRMAN: Item "dieselization" agreed to.

Mr. KNIGHT: Is there any appreciable increase in repairs or upkeep of the diesels, or are they all so new?

Mr. GORDON: There will be more need for repairs of course as the diesels grow older, as I have said in paragraph 35 of the annual report.

The CHAIRMAN: Item "Rolling Stock".

Mr. CARTER: Concerning these new pulp wood cars which you spoke of, will there be any provided for Newfoundland? Are you contemplating providing some of them for Newfoundland?

Mr. GORDON: Not at the present time. They are still in the experimental stage. We have only produced enough to test them and to see if there will be a demand for them, because the only justfication from our point of view will be if the pulp and paper companies are prepared to pay a charge which will recognize the increased utility of the car.

Mr. BALCER: Do you figure that the savings in shipping costs and so on to the shipper will give him a chance to make up for the difference in the pulp wood transportation? On the railroads in the United States and in Canada according to some paper companies I have been told that it is much cheaper to haul pulp wood in the United States, and that there is an advantage.

Mr. GORDON: We have heard that and have examined and talked about it with the pulp and paper companies. But you have to get specific examples. Sometimes there is a particular situation where that statement would not be true because of different conditions in the United States as compared to Canada. And in reverse, there are Canadian situations as well, so it is not true as a general statement. However we are producing a car which will substantially increase the handling of pulp wood and reduce the cost.

If you will look at the picture of the car you will see what we have in mind, and how the car will operate. It will give them an increased load, and will also help them to unload and load it faster than with present arrangements.

Mr. BALCER: How many pulp wood cords would you have in a car like that? Have you any idea?

Mr. GORDON: Yes, I have an idea, but I do not know how many it is. I have not got the actual tonnage, but we expect that it will carry 70 per cent more pulp wood than the standard end rack car; so your increased margin is 70 per cent over the present type.

Mr. BALCER: Where are you running those cars at the present time?

Mr. GORDON: We are not running them now. We have just tested them. We have one in test to demonstrate that the idea is feasible. We have proven it now and have shown the pulp and paper companies the car and they are quite enthusiastic about it. If we can make bargains with them we have a contract in the making through which we will get a share of the savings. We will not provide it, on the basis that they get all the benefit.

Mr. BALCER: You have only one car at the present time?

Mr. GORDON: Yes. We have only one in existence and we will not build others until we are able to satisfy ourselves that there is a demand which will give us a decent return on our investment.

Mr. FULTON: Have you had the double-decker cars in operation long enough to determine the result? Is there an increased traffic or anything of that nature?

Mr. GORDON: They have been running long enough to satisfy ourselves there will be sufficient demand to justify putting them in operation. We are receiving inquiries about them.

Mr. BYRNE: The ramp goes with the car?

Mr. GORDON: Yes. The picture is shown opposite page 15.

Mr. FULTON: Would they be suitable for either short or long hauls?

Mr. GORDON: Yes.

Mr. FULTON: In which area would you expect you might have most of the traffic?

Mr. GORDON: Western Canada would be a typical example.

Mr. FULTON: You do anticipate recovering a substantial volume of traffic?

Mr. GORDON: Yes. We think we will get traffic and are also exploring return traffic. It would be particularly suitable if we were able to get them to western Canada and bring lumber on the return trip. The problem with respect to any special cars, is that usually it is a one-way proposition; there is no return load.

Mr. BALCER: The ramp shown here is attached to the car?

Mr. GORDON: Yes.

Mr. FULTON: Could you load lumber in that car?

Mr. GORDON: I think so. What is your opinion, Mr. Dingle?

Mr. DINGLE: It is hard to say. There are two steel decks. If we were able to get a solid load, yes. Certainly it could be used for farm machinery, but I do not put too much credence in the movement of lumber at the moment.

Mr. HOWE (*Wellington-Huron*): Are you considering using the piggy-back system such as you have between Toronto and Montreal on other lines?

Mr. GORDON: Yes. We would put the piggy-back service on at any point where we feel there is a sufficient volume of traffic to justify it. It calls for a high density area to justify it. It is an ordinary flatcar with tie-downs for the piggy-backs, and the loading facility is not too difficult.

Mr. HOWE (*Wellington-Huron*): The trucking firms are speaking about it in connection with joining the two transportation organizations, trucking and railways.

Mr. GORDON: It is a very live subject.

Mr. FOLLWELL: I noticed in an article recently that the American railways are using piggy-back service apparently profitably for the benefit of truck operators. Is the Canadian National anticipating carrying truck trailers other than their own at any time soon?

Mr. GORDON: Well, that is one of the current controversies in railway management. In certain portions of the United States particular conditions are such that it leads to the conclusion that you have mentioned, but in other areas it is not so. There is a violent difference of opinion between the railway lines in the United States as to the wisdom of doing that. Our position is we are more or less on the fence in regard to the advantages or the disadvantages. It is a current subject. I would not like to commit myself one way or the other. A lot will depend upon the development of traffic.

Mr. FULTON: Last year I think you indicated you were not contemplating it. I take it that this represents some new thought?

Mr. GORDON: I do not believe, in anything affecting transportation business, in saying some particular situation will remain for all time. We keep ourselves up to date as we go along.

Mr. HAMILTON (*York West*): What is the net increase in freight cost over the past five years? You mentioned your five-year modernization program, 23,684 new cars.

Mr. GORDON: Are you speaking of equipment now?

Mr. HAMILTON (*York West*): Yes.

Mr. GORDON: You want the net over five years?

Mr. HAMILTON (*York West*): Yes.

Mr. GORDON: We will have to look that up.

Mr. HAMILTON (*York West*): Is it in the same proportion we have here?

Mr. GORDON: No. It would vary. It is not an annual regularity. It rises and falls depending on traffic. I will have more to say on that when we are discussing the budget.

Mr. HAMILTON (*York West*): Looking at page 36 you indicate that you are able to carry on on the passenger service without any new equipment, or very little.

Mr. GORDON: Yes.

Mr. HAMILTON (*York West*): Is that what you say for the future, that whatever is done will probably be conversion or modernization? Have you any new passenger equipment on order?

Mr. GORDON: Not of the kind which I think you have in mind. There are such things as baggage and express cars. Again you will find the details on this in our budget. The orders outstanding, as you will see, at the end of the year are 72 baggage and express cars on order as of 1956.

Mr. HAMILTON (*York West*): This pretty well reflects the trend that there is not going to be required any large-scale new equipment.

Mr. GORDON: As a matter of fact up until two or three years ago we had not bought any new passenger coaches, for about twenty years; then we bought $55 million worth, which represents the modernization we have made. We have no immediate needs in that respect.

The CHAIRMAN: Is there any discussion under the heading "Roadway"?

Is there any discussion under the heading "New Lines"?

Mr. BYRNE: Have you anything to add to this?

Mr. GORDON: The C.P.R. and ourselves, because of our joint interest in the N.A.R., are currently bringing up to date a survey with respect to the advisability or otherwise of building a line into Pine Point. The last time we looked at it, it looked as if it would be in the neighborhood of $75 million. That is a report a year ago and we are bringing it up to date.

Mr. BYRNE: What about Grimshaw?

Mr. GORDON: Grimshaw is another. In the next few months we will have another look at the advisability or otherwise of the timing.

Mr. KNOWLES: What are the arrangements with respect to the building of the 32-mile branch line from Sipiwesk on the Hudson Bay Railway into Moak Lake?

Mr. GORDON: The situation is that they were very much in a hurry to get that line built. We had to point out to them that in order for us to build any line of railway we had to have an act of parliament. Because of their hurry we made an agreement which was roughtly to this effect: We said to the International Nickel Company "Build the line with your own money under our supervision and we will agree as we go along as to the proper cost of the construction under our supervision; then in the meantime we will ask for an act of parliament." We checked with the government as to whether or not they would be prepared to sponsor that act. In due course the act will give us the authority to buy the line back from the International Nickel Company.

The CHAIRMAN: We are now at the heading "Signals".

Mr. FULTON: I want to say how happy I am to note the automatic block signal has now been completed between Jasper and Hope and also those who are on the divisions in that territory will be glad to know it. I think you told us before that it is not quite the answer to the problem of warning against sudden slides, but it goes a long way toward answering it. You also told us, in your view, it is not the complete answer to the signalling problems of the railway. I refer particularly to the evidence last year at page 228 where you said: "The ultimate answer to signalling problems is in my opinion the centralized traffiic control and this"—referring to automatic block signals—"is a step towards that." You said: 'This is under extensive study at the present time". Then you went on to say: "I do not want to authorize large expenditures of money until we have a properly planned systematic program because doing this by bits and pieces is not a good idea, as we have found in practice." Now you say you have completed the studies?

Mr. GORDON: Yes.

Mr. FULTON: ". . . detailed studies in which justification was found for an extensive long-range application of centralized traffic control." And you say: "Which will involve heavy capital expenditures." Can you give us a more complete report on your plans in that respect, and the cost?

Mr. GORDON: We have completed the study on the system as a whole and each year we will bring before this committee through our budget the application for the amount of mileage we will put into force that year. We have, in this current budget, an item for centralized traffic control. This is not a complete study yet but only covers the main lines. Covering the main lines only, putting in the signalling system would be a capital investment of roughly about $40 million.

Mr. FULTON: Have you any present plans as to approximately how many years it will take to do all that?

Mr. GORDON: That will vary. I would guess it would take about ten years. It will vary both in respect to the technical skills that will become available and the equipment. We are very short on technical skills in respect to operation and we are short on the equipment also. We are hoping and expecting when we convey this program to the manufacturers of signals they will develop the techniques and items that are required.

Mr. FULTON: Is it not the main objective of the company in resolving the system to reduce the cost of operation or is it just for increased safety?

Mr. GORDON: Both.

Mr. FULTON: It operates in both fields?

Mr. GORDON: Yes.

Mr. HAMILTON (*York West*): Increased utilization also?

Mr. GORDON: Yes.

Mr. FULTON: Last year I asked a tentative question. Perhaps it was taken as a statement because no answer appears. This is again on page 228 referring to the availability of centralized traffic control. I asked:

> "In fact you have four divisions at the present time served by automatic block signalling equipment and ready therefor to form part of your centralized traffic control?"

Mr. GORDON: Yes.

Mr. FULTON: There was no comment or reply. I think I intended it as a question. Was my question correct?

Mr. GORDON: Four divisions; that is not right.

Mr. FULTON: That was last year. The question I am getting at now is, will that automatic block signalling equipment become an integral part of your centralized traffic control installation?

Mr. GORDON: It could be incorporated in it, so there is high salvage in regard to the automatic block we put in. But, if we started up with centralized traffic control from scratch, we would not design it completely as the automatic block.

Mr. FULTON: Therefore, with regard to your plans, which I take it, have not been completed, will it be the case that you are not installing any more automatic block signalling equipment, because you will be starting—

Mr. GORDON: That is our present position. We will not install automatic block signalling equipment, yet.

Mr. HAMILTON (*York West*): Mr. Chairman, does this mean that the natural result will be a removal, in a great many places, of the double-track operation? I notice you are talking about removing 40 miles between two points in Michigan.

Mr. GORDON: Yes.

Mr. HAMILTON (*York West*): Does that mean that eventually we will remove the double-track right from Montreal through to Chicago?

Mr. GORDON: No, it will depend entirely on the traffic pattern. It will vary. In that particular reference I made there, our study showed that with centralized traffic control, and with the traffic pattern we have there, we can handle it quite effectively with single-track. But we, therefore, have to consider the economics of tearing up the double-track, not only in the matter of salvage, but the matter of economics. It is not a generalization at all that we would abandon the double-track. I cannot see us, for instance, abandoning the track between Toronto and Montreal.

Mr. HAMILTON (*York West*): It would be more general that you would get better results from your double-track than from the single-track operation?

Mr. GORDON: In some places, yes. Therefore, we would find it would be to our advantage to put centralized traffic control more rapidly into single-track areas.

Mr. HAMILTON (*York West*): Yes.

I know how you feel about commuter services, but in talking about centralized traffic control, does that mean that you could make greater use, say, of your facilities in an area like the general Toronto area, than you can now? You will recall that last year you said that you were physically short of terminals to even handle the large scale commuter operation in and out of, say, our Union Station?

Mr. GORDON: Yes.

Mr. HAMILTON (*York West*): Will this type of control give added use to the physical facilities?

Mr. GORDON: That is correct, but there are—

Mr. HAMILTON (*York West*): I know there are a lot of economic factors.

Mr. GORDON: But there is a bottleneck in regard to the operation too, and that is the terminals. The centralized traffic control would not give us very much advantage in the matter of terminal congestion.

Mr. HAMILTON (*York West*): It would just get us in better, and get us out better?

Mr. GORDON: In fact, it might get more in, and increase the congestion of the terminals. The terminal plan has to be hand-in-glove with this centralized traffic control.

Mr. HAMILTON (*York West*): Then, what you could foresee, provided the economic factors could be handled, would be that our approach facilities to the large major cities could handle a great more traffic, but we might have to look to different depot facilities for it?

Mr. GORDON: That could be the case. You will notice in paragraph 57, I make reference there to very large scale extensions and designs to relieve congestion.

Mr. FULTON: One further question on this; how do you compare, from the point of view of installation of the C.T.C. to the C.P.R. in Canada and to the main line railways in the United States?

Mr. GORDON: The C.P.R. have no centralized installations, they have none at all; but they have considerably more automatic installations than we have. I think I have a figure on that. The figures I have here show that the C.P.R. seem to have 3,039 miles of automatic signal territory, and we have a total of

2,223 miles. That covers all forms of automatic signals in our case, including centralized traffic control. They have automatic signal equipment on 3,039 miles, and we currently have it on 2,223 miles.

Mr. FULTON: What is the situation with respect to the United States main line roads?

Mr. GORDON: Excuse me; I do not like quoting C.P.R. figures, but I want to make it clear that I have taken those figures from the 1955 report. I do not know what the 1956 report shows.

Mr. FULTON: What is the general situation of the main line railways in the States? Are they pretty well served by it?

Mr. GORDON: Yes, generally speaking, all the class I railways are much more heavily automatic signalled than in Canada. There is a greater density of traffic which, of course, leads to that.

Mr. FULTON: Does that mean that most of it is central traffic controlled?

Mr. GORDON: It varies again. They have got both. There are some figures, but I do not think I have got them here. This shows that the total track operated in the United States, on class I railways, appears to be 378,896 miles, and of that there is 111,745 miles with automatic block signals, and 26,038 miles with train controls of various other types. There is 28,428 with centralized traffic control, and there is 29,545 miles of, what is called, non-automatic block signal. These, again are 1955 figures.

Mr. FULTON: They really have not got a great proportion of it on C.T.C. then?

Mr. GORDON: No, they have not.

Mr. FULTON: How does the cost of installation compare as between the centralized traffic control and the automatic block signal?

Mr. GORDON: It was considerably more, but latterly it joins together about the same. These railways did have the jump on us, by being equipped with automatic block, which was up to date at that time. We are coming along later, but we will have the advantage now of having that much more modern a system.

Hon. Mr. MARLER: Mr. Gordon, would the question, as to whether you use automatic block signal, or C.T.C., depend, to a large extent, on how far your line was already double-track?

Mr. GORDON: Yes, that is right. In other words, the most immediate advantage, both in regard to cost of operation, and safety is in the single-track area. What centralized traffic control does, in effect, is give you flexibility of the double-track on single-track.

Mr. FULTON: Yes, there is no appreciable cost difference between the two types.

Mr. GORDON: We are very strongly of the opinion that a centralized traffic control is the much better and more efficient system.

Hon. Mr. MARLER: The point I wanted Mr. Gordon to bring out was that in comparing the two railroads you must know their conditions as to density of traffic and the kind of traffic they carry.

Mr. GORDON: Yes. I think it may be said, however, that the C.P.R. is in a better position in regard to automatic signals than we are, today.

The CHAIRMAN: Is the heading on "Signals" carried?

Mr. HAMILTON (*York West*): This C.T.C. I assume did not advance far enough in your discussions to be a part of any get-together that you had with any of the municipalities in discussing commuter services.

Mr. GORDON: No, and I really do not feel that the C.T.C. is going to be much of a contribution in assisting the commuter situation. I could not say that.

Mr. HAMILTON (*York West*): Well surely, Mr. Gordon, with the combination of C.T.C. and the situation where the airlines may be removing a fair amount of your passenger traffic, surely in time it will open up facilities to commuters' service if some of the economics can be handled.

Mr. GORDON: No, you have your basic problems, and the basic trouble with the commuters' service from the standpoint of economics is that it is a peak-load service. You crowd into an hour or an hour and a half in the morning and at night, perhaps, the demand for that service and you have to have your equipment for that period which lies idle during the day; and the crew stays with it. We cannot switch around the crews, even, to any effective extent. I doubt whether the increasing of the capacity in the way of the railroad itself does anything to alleviate the situation. As a matter of fact, it increases congestion in some cases.

Mr. HAMILTON (*York West*): So then it is really a case of straight population?

Mr. GORDON: As I said yeterday, and I say this flatly, the railroad was never designed as a short-run passenger tool. It does not suit our facilities—that is not our business and we should not be in it. The railroad is designed for long-run, large-volume business and if we try to run five or six or ten or fifteen miles on short-runs then we just cannot make money. We are not built for that purpose.

The CHAIRMAN: Is the paragraph on "Signals" carried?

Agreed to.

And the paragraph on "Yards and Terminals", is that carried?

Mr. HAMILTON (*York West*): Did you ever get the problem of location of the marshalling yards or whatever it was that you were talking about in Oakville, satisfactorily settled Mr. Gordon, with the people in the area?

Mr. GORDON: Yes, that has been settled and I am glad to say, so far as I know, to everyone's satisfaction. So therefore it is the closest thing to a miracle I am able to report.

The CHAIRMAN: The paragraph on "Yards and Terminals" has been carried.

Agreed to.

Is the paragraph on "Montreal Terminal Development" carried?

Agreed to.

Is the paragraph on "Hotels" carried?

Agreed to.

Is the paragraph on "Communications" carried?

Mr. CARTER: I would like here a word of appreciation of the cooperation that we have received from Mr. White, of the management of C.N.T. He has not been able to do everything we have asked him but he has listened very sympathetically to our requests and I think that it should be placed on the record.

Now we are a little worried about this change-over of equipment from the Morse code to the telegraph in many offices. I do hope that you will go a little slowly on that and bear in mind the fact that it is going to have an effect upon the personnel who are in a different position from the personnel in any other part of Canada.

Mr. GORDON: Our problem there, of course, is a problem that we have had to face all over Canada; the fact is that the Morse code operations are being taken over and we cannot get young men to go into that work. So that we have to provide for the fact that the present incumbents are not going to be replaced there will be nobody to take their present places. They will not be trained because they will not go in and learn the Morse code. Take for instance the old-fashioned tick-tack method of communication! So it is inevitable that it is going to dry up and we cannot gauge our progress on the basis of keeping it alive considering the age of the last man, so to speak.

Mr. CARTER: Of course, Newfoundland conditions are very much different from those on the mainland.

Mr. GORDON: I believe I grasp that point.

Mr. CARTER: Well I do not want to labour it but it is true in communications as well as in other phases of your operations.

Mr. GORDON: Well, now Mr. Carter, let us be frank with each other. You cannot have it both ways. You are either going to press me for up-to-date, modern communications and all that that means, or you have to leave me alone with what we have got. Now the Morse code operation is an old-fashioned type of operation, but if you want that then do not complain about not having modern facilities provided, because you cannot have it both ways.

Mr. CARTER: No, but surely when you say you are modernizing and bringing things up to date, the fact that you bring in the wireless telegraph does not necessarily mean an improvement in the Morse service, in places where you had it before. I think, however, it has enabled you to institute services between points much more cheaply, perhaps, than you would have otherwise been able to do.

Mr. GORDON: Oh yes and we have extended the service to points that otherwise could not possibly be economically justified in any other type of installation.

Mr. CARTER: But we do not see how you can possibly eliminate the Morse operator entirely.

Mr. GORDON: As of today?

Mr. CARTER: Yes.

Mr. GORDON: I agree; I agree. But the time is coming when he will have to be replaced. In fact I will put it this way, that he is eliminating himself. He is eliminating himself because there are no trainees coming in for that purpose to fill the place of the Morse telegraph operator that you have mentioned.

Mr. CARTER: Yes; well I think there are other reasons for that, as far as Newfoundland is concerned; but there need not be that shortage of Morse code operators in Newfoundland. The conditions that have arisen in the service since Confederation has produced that effect.

Hon. Mr. MARLER: Would you recommend that one of your friends become a Morse operator as a career?

Mr. CARTER: If he could make a living at it, yes.

Mr. GORDON: Where would he get a living? Would you condemn him for all time to that as the only form of occupation for life, his only opportunity in life? It would have to be so in the case of Newfoundland because that is the only place where we could use them. We could not use him anywhere else in Canada.

Mr. CARTER: There are lots of people who are limited by their physical conditions and that is the only kind of work that they could do. There are people who are lame, or who are born with physical handicaps that could make a living in that way, but who could not go out and work as a stevedore.

Mr. GORDON: Well, surely the answer to that is to find current work for them under current conditions rather than perpetrating an old-fashioned system.

Mr. CARTER: Well I am not asking you to perpetrate an old-fashioned system, but what I am asking you to do is to go slowly enough that the people who are in those jobs will not be suffering any hardship.

Mr. GORDON: Well I may say this, it has not been any part of our deliberate program to speed up in such a way as to put these men out of work. But as I say, the progress that has to take place in communications in Newfoundland and elsewhere has got to be intelligently planned.

Mr. CARTER: Oh yes, but the man I am thinking of, of course, is the person who has been serving in this capacity for say 20 years and has got his roots down in the little settlement where he is and then you come along and take out his Morse instrument and put in a telephone and his income goes correspondingly down and his livelihood is reduced.

Hon. Mr. MARLER: But do not the people get better service as a consequence?

Mr. CARTER: Not necessarily, no. I do not think that the people would agree that the service is improving.

Hon. Mr. MARLER: Is is not more convenient to telephone than to send messages by Morse code?

Mr. CARTER: Well, these were made up in a sort of walkie-talkie affair which was run by a battery. The technician comes in and instals it and then goes back to St. John's. About two hours after he has left the apparatus breaks down and nobody in the place can repair it so we have to wait another two or three weeks until the man can come back again. That is not an improvement in service, generally speaking.

Mr. GORDON: Neither is it a statement of fact.

Mr. CARTER: Oh yes. That is a statement of fact!

Mr. GORDON: It certainly is not a statement of fact having regard to all the installations we put in. Everybody knows that you will have mechanical trouble from time to time. I do not agree that there is a high frequency of that trouble in Newfoundland. On the contrary you are getting a better and wider extension of service than you ever had before confederation. It is either that, or we have spent millions of dollars uselessly, and I do not think we have done that!

Mr. CARTER: I do not think you have. You have made valiant effort to do this. But the instrument which you have used to improve this service suffers from mechanical faults which put it out of commission.

Mr. GORDON: Of course. Any mechanical instrument is subject to difficulty. I have no doubt that there have been periods of time when the Morse code operator did not do his job very well, and I am sure there must have been complaints before confederation about the service.

Mr. CARTER: They also have this serious disadvantage that anybody can pick up a message. There is no privacy with a message going over the wireless telephone. Anyone can turn on his radio and listen in.

Mr. GORDON: That is right. Those are the sort of things and discussions that we arranged to have Mr. White speak about with the Newfoundland members. We explained to you that in the process of putting in new arrangements there was bound to be difficulty. We are now working on a means of scrambling these messages being carried over the air. That is all part of the evolution. You cannot build Rome in a day and you cannot remake Newfoundland in three years.

Mr. CARTER: I did not start out to complain. I said that we appreciate all the co-operation we are getting from Mr. White and we give him full marks for it, and we give full marks to the Canadian National Telegraph for trying to improve the service. But in the process of bringing that about all the persons who had accumulated quite a number of years of service before confederation and since, through circumstances over which they have no control, face a lowered income which is below the level of existence.

Mr. GORDON: It would not be kind of me nor would it be fair to encourage the belief that men who have been Morse code operators are going to have jobs for life through a perpetuation of the present system. That would be unfair. These men should face up to the facts of life, that they are working in a dying industry and that it is only a matter of time, and that they should start looking around and qualify themselves for other jobs or employment.

Mr. CARTER: That is not possible when a man is 40 to 60 years of age.

Mr. GORDON: It is equally impossible for us to keep a mechanic on doing a job which is going out of existence.

The CHAIRMAN: Item "Communications" agreed to.

"Service improvements".

Mr. FULTON: There was some discussion yesterday about Railiners. Last year you told us that you had fourteen points under examination. Now we are considering the wisdom or otherwise of providing a service with Railiners. This year you mention only one. That is the one you put into operation between Calgary and Edmonton. Have you decided to abandon the others?

Mr. GORDON: Oh no. It takes time to get Railiners. How many do we have on order now?

Mr. FULTON: I could not see that on page 36. You do not separate Railiners.

Mr. GORDON: The unit cars under passenger equipment. Nine are on order at the end of the year.

Mr. FULTON: A unit car is a Railiner?

Mr. GORDON: Yes.

Mr. FULTON: In other words your experience with them is—

Mr. GORDON: We have nine actually on order and in our budget we have a contingency item for others.

Mr. FULTON: Last year you said that you did not like to discuss the places merely being considered. I ask you have you any places that you have decided to put in operation as soon as you get to them?

Mr. GORDON: "Decided" makes it pretty positive. I do not like to make a pronouncement here which will immediately get out to the public on the basis of a statement. However, I can tell you on the Regina-Saskatoon-Prince Albert run we expect to go ahead this year. We, also, think we will go ahead with the Montreal-Richmond-Sherbrooke run, and have already put in the second unit between Calgary and Edmonton.

Mr. FULTON: Where you put the Railiner in, is it because you expect merely to be able to reduce your cost or actually to show a profit?

Mr. GORDON: It is on the basis of reducing cost in the first instance and a hope of reducing loss of operation and a hope by their installation that we might encourage travel to the point where the traffic will show a profit. I do not see in any of these operations at the moment a profitable operation.

Mr. FULTON: Not even on the Calgary to Edmonton run?

Mr. GORDON: Not at the moment. If we have an increased number of passengers we will have something.

Mr. FULTON: You are not at that point yet?

Mr. GORDON: No, but I think we will have something when we reduce our loss; that is equally important.

Mr. FULTON: Is it one of the developments in which you are most hopeful, from the point of view of turning a universal passenger operating loss into a condition, in some areas at least, where you can show a passenger surplus?

Mr. GORDON: It is most likely in these specific areas. I do not, for instance, say the Railiner shall ever take the place of a transcontinental run or a run between heavy density areas. You must remember they are self-propelled cars and where they are most useful is where we can run them as a single unit and not make a train of them; just run them over a line as a single unit. The cost at the moment is running around $200 thousand per car.

Mr. BALCER: Where are these manufactured?

Mr. GORDON: They were manufactured by the Budd Company of the United States but recently an arrangement has been made with the Canadian Car and Foundry Company, Limited, for their manufacture, associated with the Budd Company, with respect to certain patents and things of that kind.

Mr. HAMILTON (*York West*): That is part of the A. V. Roe Company of Canada?

Mr. GORDON: Yes. It is now.

Mr. FULTON: Have you any idea as to the maximum length of a run at the moment in which you believe they are suitable?

Mr. GORDON: I do not think the mileage in that is important. It depends on the traffic. For instance on the run between Ottawa and Montreal, certainly if we had the conditions which would justify it these cars would be used. There is no limit as to the mileage.

Mr. FULTON: I was trying to relate it to what you said yesterday as to the possibility of the Super Continental in the inter-city runs.

Mr. GORDON: I do not regard the Railiner as the answer to the inter-city runs because I am looking for much larger volume than could be handled by a unit car.

Mr. FULTON: They are not capable at the moment at any rate of hauling other cars.

Mr. GORDON: Yes. You can add to it, but it would be uneconomic because these cars are self propelled.

Mr. KNIGHT: Can you hook on an ordinary car?

Mr. GORDON: We have not done any hauling, but they can be adjusted so that you can put on extra units.

Mr. FULTON: Do they cost more than diesel locomotives?

Mr. GORDON: Slightly less. In the diesel the current cost is running around $230 or $235 thousand and the cost of the self-propelled, we think, is running around a little under, we hope, $200 thousand. We have not actually a final price yet.

Mr. HAMILTON (*York West*): Could you add units? You have not had them hauling unpropelled cars?

Mr. GORDON: No. It would also be uneconomic to add another self-propelled unit to a propelled unit.

Mr. FULTON: Instead of hooking on another self-propelled unit it might be better to hook on another car.

Mr. GORDON: That would have to be tested as to whether we can build a trailer unit, so to speak, to attach to the self-propelled. It is not recommended at the moment because of the power. The power is designed only for that one car and it would overstrain it if it were used to haul another unit.

Mr. FOLLWELL: If it comes in here, I just want to ask if you are operating any bus transportation lines now, Mr. Gordon, or have you extended your truck operations this last year?

Mr. GORDON: I do not think we have any extensions.

Mr. FOLLWELL: I think you told me last year that you were contemplating the purchase of a truck line at that time, or a bus line.

Mr. GORDON: We have inaugurated a highway service between Fort William and Long Lac, in lieu of railway service. I think that is all that we have inaugurated. We discontinued the bus line from Glace Bay, Halifax through to Calaise, Maine. We have discontinued that because it did not prove out.

Mr. HAMILTON (*York West*): Could I ask this question; why do you use buses between Fort William and Long Lac in lieu of a self-propelled car? What would be the different appreciation of the circumstances?

Mr. GORDON: The volume of traffic available. We have made an analysis that shows that we could do it cheaper with buses than we could with the Railiner.

Mr. HAMILTON (*York West*): You have dropped from complete steam down to buses?

Mr. GORDON: Yes.

Mr. HAMILTON (*York West*): You did not go through any intermediate steps?

Mr. GORDON: That is right. I can tell you that we have instances where we could show the Board of Transport Commissioners, where there was less than one person a day travelling on a service that we had asked to abandon.

Mr. HAMILTON (*York West*): Would this bus line pay, then?

Mr. GORDON: It is reducing our losses, again. I have not analyzed it yet, so as to know whether it has an over-all profit.

The CHAIRMAN: Shall "Service Improvements" carry?

Mr. CARTER: No, Mr. Chairman, I have several questions.

The CHAIRMAN: We will commence at 3.15 with "Service Improvements".

AFTERNOON SESSION

3.15 p.m.

The CHAIRMAN: I think we have a quorum now gentlemen.

Mr. McCULLOCH (*Pictou*): Mr. Chairman, I know this item in respect of hotels has been passed, but it was rumoured around in Nova Scotia, in Halifax, that the Nova Scotian Hotel is going to be enlarged.

Mr. GORDON: A possible enlargement—yes, we have that very actively under examination now. We have some difficulty in regard to the foundations around the Nova Scotian Hotel, and our engineers are doubtful about the wisdom of expanding the hotel until we have made a proper survey, in regard to those foundations. So, we have two or three alternatives, which are under active examination now. We are not planning any immediate construction, but after we have made up our mind, and have the results of the survey, we will be discussing it, probably, with the city and others, in arriving at an arrangement. We will be making an announcement on the subject as soon as we have the facts we are now trying to establish through the engineering examination.

Mr. McCULLOCH (*Pictou*): Thank you.

The CHAIRMAN: Under "Service Improvements", are there any further questions?

Mr. CARTER: Yes, Mr. Chairman, I have three or four questions on this point.

Mr. Gordon knows, that for the past five years, I think, I have made a yearly complaint about the service on the Placentia bay run, that is, particularly on the motor vessel Beurin. I wonder if Mr. Gordon could say when we might expect some improvement?

Mr. GORDON: I keep coming back to the statement I made many times which is covered under paragraph 70. The whole of the Newfoundland situation is under, and has been under, for the past year, a very close examination by this committee, who have made visits to many points in Newfoundland, and have discussed locally, with the people there, and have invited the local citizens to present to them their complaints and suggestions in regard to services. On the basis of their analytical report, it will be my duty to determine what the railway can do, or to present to the government what services we feel ought to be improved. Included in that will be an expression of opinion in regard to the condition of the coastal vessels which you mention—the adequacy, or otherwise. It may well be that there may be even other ships required.

Mr. CARTER: I am not interested in other ships, but surely you do not have to wait for this commission to make a report. Surely you have had reports made before this on that particular boat? Surely the complaints that I have made have warranted an investigation—enough for you to make a decision as to whether you consider this type of service satisfactory or not?

Mr. GORDON: Quite. But, you remember too, that in the meantime, two new ships have gone into service.

Mr. CARTER: Yes, I am not complaining about that. I am complaining that there has been no improvement in this particular service. How much longer do we have to wait for it? I mean, after all, it has been five years, and the service has not improved one bit. It has got worse.

Mr. GORDON: Of course, I might remind you too, they are not our ships.

Mr. CARTER: What do you mean by that?

Mr. GORDON: Just what I say; they are not our ships. We simply operate them.

Mr. CARTER: Am I making a mistake in directing the complaints to you, or should they be made to—

Mr. GORDON: In regard to the quality of the ships, your complaints, I suggest, should be referred to the government. But, what I am saying to you is, we are the operators of the ship, and we do the best we can with what we have. But, we are making a survey now and I intend, as a result of that survey, to make representations to the government in regard to all the shipping services. Whether the government will listen to me more than they will to you, I do not know.

Mr. CARTER: I have been pestering the government too much, because I have always got the impression from the government that these complaints should go to the C.N.R., and to the C.N.R. first.

Mr. GORDON: The C.N.R. are the operators of the ships, not the owners of them.

Mr. CARTER: You cannot get any ship unless the government provides it, is that right?

Mr. GORDON: We would have to apply to the government for another ship, and we would have to, I presume, support our applications as to why another one was needed.

Mr. CARTER: Oh, we are getting somewhere now. The government cannot move until you make an application?

Mr. GORDON: I have never been able to control the government in any move. They can do what they want, as far as I am concerned.

Mr. CARTER: But, you made a statement there, that when you got a report, you would make representations to the government.

Mr. GORDON: Yes, that is right.

Mr. CARTER: If you can do that after you get a report, why do you have to wait for the report to do it? Why did you not make that two years ago?

Mr. GORDON: Because I wanted to know the facts on the over-all situation of transportation in Newfoundland. It is part of the general report on the whole Newfoundland situation.

Mr. CARTER: But you did not wait until you had a report to supply the two ships, *Bonavista* and *Nonia*, you managed with those ships. Why are the people of Placentia bay to be singled out?

Mr. GORDON: I do not know what you mean by "singling out" the people of Placentia bay.

Mr. CARTER: They are singled out, because they are the only people on the transportation system that are treated like cattle. That is what I mean by "singled out". They are not even treated like human beings.

Mr. GORDON: I do not know what you mean by that.

Mr. CARTER: I mean, that the ship is not fit to carry passengers. The service is below the standards which you make to all other parts of the island.

Mr. GORDON: That is an expression of opinion; that is not an expression of fact.

Mr. CARTER: That is an expression of fact.

Mr. GORDON: That is your opinion.

Mr. CARTER: No, it is fact, too.

Mr. GORDON: All right, you transmit that fact, or transmit your opinion to the government to provide a ship, and then we will be able to do something about it.

Mr. CARTER: I will give Mr. Marler notice now; and when the estimates come up, I am bolstered now by what you said, that if the service is to be improved, the government must do it.

Mr. GORDON: Provide facilities in the form of ships. They provide the ships and we operate them.

Mr. CARTER: I see; and the reason for this disgraceful service that has been imposed on the people of that section of my riding for the last five years, is because the government has not provided better services?

Mr. GORDON: Wait a minute: The reason that the service that you refer to, is as it is, is that we have inherited the service from the Newfoundland government. We carried on in Newfoundland with the same kind of service as was provided by the government of Newfoundland.

Mr. CARTER: Oh, no, oh, no. On that particular run we had a much better ship, the Barhaven, which was shipped to another part of your service. The Newfoundland government never operated a ship like that for passengers.

Mr. GORDON: Where did the ship you refer to come from?

Mr. CARTER: That ship was built for freight, built as a cargo ship, and carried fish between Newfoundland and the West Indies; and that is all it was ever used for. It was the C.N.R. who took that ship and turned it from a cargo ship into a passenger ship.

Mr. GORDON: To provide the coastal service.

Mr. CARTER: Yes.

Mr. GORDON: Making the best use we could of the ships we had available.

Mr. CARTER: We are reasonable people; we do not expect miracles overnight.

Mr. GORDON: I have seen no evidence of that.

Mr. CARTER: You think it is unreasonable to wait eight years for improved service?

Mr. GORDON: Mr. Carter, if I could make an analysis of what the C.N.R. has done for Newfoundland in terms of expenses, and in the way of facilities, I think I could prove, without any difficulty, that far more has been done for Newfoundland than in any place else in Canada, both in terms of expenditure of dollars, and in terms of provision for improved services.

Your difficulty seems to be that you seem to think that overnight there should be suddenly constructed a system of transportation, that was run down and a disgrace—and I will use your own words, "a disgrace"—and that we should be able, in a matter of a few years, to put that on the same basis as the mainland. I am telling you that that is technically and practically impossible. I do say that the progress that has been made should call for congratulations instead of complaints and criticism. I do say this to you too, that speaking as a human being, if we occasionally got some thanks from Newfoundland instead of the kind of criticism we get, you would get a little faster job.

Mr. CARTER: Well, Mr. Gordon, if you had to travel on this ship, like the other people do, you would be complaining, yourself.

Mr. GORDON: That is perfectly all right, if you keep your complaints on a reasonable basis.

Mr. CARTER: What do you think is unreasonable about it? Will you explain to me what is unreasonable about the complaining?

Mr. GORDON: I have told you that we have something in hand here which is more intensive, and more far-reaching than has ever been done in connection with transportation in any particular area in Canada. I have told you that as soon as we get the facts on which to base a program, that will be proceeded with as quickly as possible. But, you start to ask me why I did not do it five years ago.

Mr. CARTER: Yes, because I complained about it five years ago, and I understood that you had an investigation on that.

Mr. GORDON: No, no, you have got improvements over the five years.

Mr. CARTER: In what, particularly?

Mr. GORDON: True, you have not got all the improvements, I agree, but you got improvements.

Mr. CARTER: Will you tell me what improvements were made in my riding, please? What ships do we have now that we did not have before?

Mr. GORDON: You are talking about ships, and I am talking about the general transportation system.

Mr. CARTER: I am talking about the services in my own riding. That is what I am concerned with. You tell me what improvements we have had over the five years.

Mr. GORDON: I do not know offhand. We would get into a long discussion in regard to the whole transportation around Newfoundland, to establish that.

Mr. CARTER: But does the fact that women and children are travelling on a ship, with no place to lie down, and no place even to sit down at times, and they just have to sit up in stormy weather and in the winter on long voyages overnight, and they have to sit in these crowded alleys—and you say it is unreasonable to ask to have that changed?

Mr. GORDON: I can say too, if you wish—and it is a fact also—that there are all sorts of places where there are no wharves, no provision at all for intelligently handling ships. But that came out of the Newfoundland government, and it still has not been corrected. There are all sorts of things. When you get through with that statement I can tell you a lot that you do not know about Newfoundland.

Mr. CARTER: You will not tell me anything that I do not know about my own riding.

Mr. GORDON: Including the fact that we cannot get the people to work in Newfoundland as they do elsewhere. We cannot get them to handle ships on the basis of using up-to-date and modern equipment. There are all sorts of things I could tell you.

Mr. CARTER: In the smaller harbours?

Mr. GORDON: I am talking about the Newfoundland costal ships. We have the most extraordinary difficulty in getting normal results from the use of labour saving equipment.

Mr. CARTER: I do not know what labour saving equipment you are talking about.

Mr. GORDON: I am talking about the—

Mr. CARTER: Who is supposed to provide this labour saving equipment—the government?

Mr. GORDON: It is part of the facilities of the ship, as I say.

Mr. CARTER: Labour saving devices on the ship, you are talking about?

Mr. GORDON: Yes.

Mr. CARTER: Surely that is something between you and the government?

Mr. GORDON: That is also something between us and labour.

Mr. CARTER: You mean you provide the equipment and they will not handle it?

Mr. GORDON: Yes.

Mr. CARTER: Or they refuse to have the devices?

Mr. GORDON: That is right.

Mr. CARTER: They refuse to have them installed on the ships?

Mr. GORDON: They refuse to use them.

Mr. CARTER: They are there and they will not use them?

Mr. GORDON: Yes.

Mr. CARTER: Can you give some specific instance of that?

Mr. GORDON: I am not going to get into specific instances.

The CHAIRMAN: I do not know that we need to go into all the instances in connection with this matter. This is the item of service improvements. Mr. Carter, you have had an opportunity to put forth your objections here today.

Mr. CARTER: Yes, and I am not half finished, Mr. Chairman.

The CHAIRMAN: And Mr. Gordon has given an explanation with regard to these matters. If there are any other objections you want to put, bring them forward.

Mr. CARTER: I take it, then, from Mr. Gordon, that we can expect no improvement in the service this year? There is no provision for it?

Mr. GORDON: I did not say that. There have been service improvements in Newfoundland.

Mr. CARTER: I mean in this particular area that I am speaking of—Placentia Bay.

Mr. GORDON: I do not know. I would have to examine it more particularly.

Mr. CARTER: Let me get straight what you did say. You said you were waiting for a report from this commission?

Mr. GORDON: Yes.

Mr. CARTER: And following the receipt of that report from the commission you would probably approach the government with certain suggestions and recommendations?

Mr. GORDON: Yes, and we will take a look at it ourselves.

Mr. CARTER: I know, from my own experience, that the only way to improve that service is with a new ship. You cannot build a ship overnight. That is another six or eight months, at least; so that adds up to no improvement for at least another year, does it not?

Mr. GORDON: You are making a statement, I take it, are you? You are not asking questions.

Mr. CARTER: Yes, I am asking you is that a correct inference?

Mr. GORDON: In regard to a new ship in that particular area?

Mr. CARTER: Yes.

Mr. GORDON: I do not see, offhand, how a new ship could be built in six months, no. But, there might be other things done. It does not have to be a new ship.

Mr. CARTER: You are thinking that it might be possible to provide another ship?

Mr. GORDON: I do not rule the possibility out, but I am not going to make promises that I do not know whether I can discharge or not. All I can say is, the whole matter is under very careful study, and it might be possible to take action by a different means. It does not depend entirely on the building of a new ship, to get the action you mention.

Mr. CARTER: All we want is better accommodation on the ship, better passenger accommodations. I do not think that is an unreasonable request, and I do not think the people have been impatient in putting up with it for eight years.

The other question I wanted to ask about is with regard to the transportation of fish. I have had a good deal of correspondence and talks with Mr. Marler, the Minister of Transport, and with Mr. Dingle, about the transportation of fish in the Port Aux Basques area, particularly. When there is an ice blockade in the gulf, it slows down the transportation across the gulf to the extent that the fish are not marketable when they reach their destinations. I suggested some time ago that the William Carson, which is running between North Sydney and Argentia, on her return trip, might run into Port Aux Basques and relieve that situation to pick up whatever fish was available there on the return trip to North Sydney. I gather from my representation to Mr. Marler and my discussions with Mr. Dingle that there is not much hope of that because of what you call certain hazards in the Port Aux Basques harbour. I wonder if you could elaborate on just what those hazards are?

Mr. GORDON: Well it does not really need any elaboration. The statement simply has been made many times that the harbour facilities at Port aux Basques and the approaches therto are not of a character that we are able to work out a safe operation for the William Carson into that harbour, and the government has announced that protective measures are being taken to provide breakwaters and otherwise, for a safe, quiet harbour. All we have ever stipulated for, as operators of the ship, is a quiet harbour.

Mr. CARTER: But Mr. Gordon, all you have stipulated for is a quiet harbour when the weather is rough. Surely a harbour is not rough all the time?

Mr. GORDON: That is quite true.

Mr. CARTER: When there is no ice heaving in, and no wind, the harbour is quiet.

Mr. GORDON: But surely you do not start a run for the William Carson, in and out of Port aux Basques, on the chance that the weather is going to be good?

Mr. CARTER: Oh no, no, I am not asking you to establish a regular service. But you have certain facilities and we are asking you on the return trip to just go into the harbour when the weather conditions permit. The idea, of course, is that the ship could go into Port aux Basques and pick up the fish that was there and help that situation.

Mr. GORDON: Well I have beeen informed by the captain of the ship, who is a very capable captain, that the hazards are such that he could not take the William Carson into Port aux Basques harbour until these works have been completed.

Mr. CARTER: Could you explain to me, Mr. Gordon, what it is that is so much more hazardous for the William Carson to go into Port aux Basques than any other large ship, for example, the Bowater ships.

Mr. GORDON: Yes, there are lots of explanations for that. We are getting into the technical subject of navigation upon which, personally, I do not presume to be an expert, although we are of course advised by experts. But we understand that the William Carson is an entirely different kind of ship. It is unusual in that it is vulnerable to wind, particularly so, and it is quite different from the other ships. She has a tremendous side area, which would catch the wind, and therefore it makes her very vulnerable. And there is no keel on the William Carson, and that makes it also very difficult for manoeuverability.

The situation as I understand it is that the William Carson, when she decides to make a run, if the situation arises, into the Port aux Basques harbour, and she does come to the point of making a run,—as you know there is a long narrow channel—well now, when she does commit herself to that run, then she is for it, because she is too big to turn around. She is too big to adjust herself to any unexpected wind changes and she cannot make turns and manoeuver on a basis which would make it safe to go into the harbour until the improvements have been made.

Mr. CARTER: Well that applies to the Margaret Bonavista which carries 8,500 tons of cargo.

Mr. GORDON: Well, it is altogether different, and it has a different kind of design. I am trying to answer you as to why the William Carson has difficulty in getting in. I do not kow about other ships but I am speaking of the hazards in connection with the William Carson on the basis of the captain's report to me.

Mr. CARTER: You mentioned just now that one of the biggest hazards was the wind.

Mr. GORDON: Yes, that is right. That is one of them.

Mr. CARTER: Well do you ever see a breakwater being constructed that is going to prevent that hazard?

Mr. GORDON: No, no, that is not the point. It is a question of the manoeuverability of the ship, and, among other things, the William Carson is particularly subject to wind hazards. Each turn must be planned so as to make proper turns into the harbour and then finally lie at the wharf on the basis that there is no a great deal of surge. In other words we must have a quiet harbour before the ship can properly go in and out of the harbour.

Mr. CARTER: But that applies equally to other ships, surely, of the same size. I mean, they could not lie alongside wharves if there was surge.

Mr. GORDON: Well there are no ships to my knowledge that have the same unloading and loading procedure as the William Carson. It is a specialized ship.

Mr. CARTER: Oh yes, yes. We agree to that.

Mr. GORDON: A specialized vessel.

Mr. CARTER: Oh yes, I agree; but when there is no surge, when the wind is blowing offshore and there is no surge, then that hazard does not exist.

Mr. GORDON: Quite; and of course we are not going to get ideal conditions at all times. But the question is that it would not be safe for the William Carson to go in and out of Port aux Basques under present conditions. You should know, more than anybody, that the weather conditions around Newfound and can change very quickly, and therefore we would not be prepared to hazard the ship merely on the chance that it is going to be calm weather.

Mr. CARTER: Well, I don't know; but when you have an ice barrier outside you have fairly calm weather anyway.

Mr. GORDON: We cannot institute a service on that basis. An ice barrier can go in five hours!

Mr. CARTER: I am not asking you to institute a regular run, but just to relieve an emergency.

Mr. GORDON: The William Carson now has been doing a remarkable service in the matter of dealing with the emergency that has happened under ice conditions. It is not the same as in Argentia, where we are able to move traffic in there on a basis we could not otherwise carry out and we are railhauling traffic out of Argentia on both sides, keeping everyone supplied. Now the ice conditions, as you know, are most unusual and we have had a series of very unfortunate events.

It is one of our ironical situations that a few months ago our traffic conditions between the mainland and Newfoundland were better than they ever had been. We did not have a big backlog and we got through the Christmas and the New Year period without any complaints to speak of, and we were sitting pretty. However, a series of disasters overtook us. First of all there was the Cabot Straits caught in a hundred mile gale and it was swept onshore—we nearly lost her. However we managed to get her off and she is now in dry-dock at St. John's and we hope she will be back in service in the first part of April. Then we had our two big new ships the Nonia and the Bonavista which got into propellor trouble due to ice and they were laid up, and also other ships that we have tried to put into service, as a result of this extraordinary ice condition.

We are up against a most difficult situation in this chapter of events, despite everything that we have been able to do, and there have been delays which we cannot help—because we didn't produce the ice and it is the ice that is responsible for it.

Mr. CARTER: Well would it be unreasonable to ask the captain to use his own judgment if the weather conditions were right so that he could go in there and help out in an emergency?

Mr. GORDON: Mr. Carter, we are running a transportation system on the basis of scheduling a whole run of traffic on continuous performance. You cannot say to a captain "Well use your own judgment whether or not to go into the harbour". It won't work out that way. You have to have you traffic handling facilities at the point you intend to go in; you have to have your crews; you have to have your railway cars; you can't suddenly switch all your railway cars into Port aux Basques instead of Argentia.

Mr. CARTER: You were talking of the general freight handling situation, but I am just talking about the fish, which are two separate things.

Mr. GORDON: Yes, sure, but it is all part of handling the transportation system, and you certainly can't take the William Carson and send her into Port aux Basques for fish, and nothing else.

Mr. CARTER: Well, if she happens to be passing, why not drop in for an hour or two and pick up some?

Hon. Mr. MARLER: Drop in for tea!

Mr. GORDON: All I can say is that the captain is one of the most experienced and capable navigators in Newfoundland, and he will not take it on his own initiative to do so unless there are none of these dangers and hazards. He will only do it under order, and I am certainly not prepared to give him that order. I am not going to take the responsibility of risking $12 million worth of shipping on a gamble until the facilities are safe.

Mr. BYRNE: For a mess of fish.

The CHAIRMAN: Was this item carried?

Mr. JOHNSTON (*Bow River*): While on this subject I would like to ask Mr. Gordon if there are any plans afoot to improve the route between Calgary and Edmonton over the Railiner. I have in mind the condition of the roadbed, and the roadbed is particularly bad. Travelling on the Railiner between Calgary and Edmonton on the C.N.R. it is extremely rough, and I am not exaggerating because I do not think I have ever ridden on a train that was rougher. I was wondering if there were any plans, although I know it is a long-range affair to reconstruct the roadbed or, even in some cases, probably to take out some of the drastic curves, in order to improve the condition. Is there any plan now for anything such as that?

Mr. GORDON: We have a general program for all of the western regions to improve our mainland track but it is something which will take a considerable amount of time and it is a very costly program. We have an estimate that we are considering needing about $46 million of mainland work which ought to be done. Calgary and Edmonton run will come into part of that program in the matter of improving the ballast and general maintenance of the line. We do not, however, have any program in mind for straightening the tracks or cutting out the curvature, because that is getting into something which is very expensive indeed. However we do hope to be able to improve the riding qualities of the line.

Mr. JOHNSTON (*Bow River*): Yes, it would be a big improvement—I wonder if you are going to undertake that during the next year.

Mr. GORDON: Yes, there will be a certain amount of that done. We will have part of the improvement in hand this year. Of course, we will do that in the course of our regular program which will come up in the budget.

Mr. JOHNSTON (*Bow River*): That will come up in the budget—especially the quality of riding to improve the service?

The CHAIRMAN: Was the heading carried?

Agreed to.

"Research and Experimentation" is the next one.

Mr. CARTER: Well just a moment now, I would like to ask Mr. Gordon if he contemplates any improvements to the railway station at St. John's.

Mr. GORDON: No, there is nothing in next year's budget for improvements to the railway station at St. John's, Newfoundland.

Mr. CARTER: That will be considered, I suppose, in this commission's report as well?

Mr. GORDON: Well I do not think so. I think it will be entirely a separate matter. As a matter of fact that general question will come up in our budget discussion and in this year's budget in particular, we have decided, as a calculated policy, to postpone and defer everything we possibly can in the light of the inflationary situation that is obtaining in the country today. So stations, unless they call for functional improvement, that is to say something that is needed for the operation, are not to be included in this year's budget at all.

Mr. HAHN: Mr. Gordon, what arrangements are being made for the Great Northern to use the new station they are building in New Westminster.

Mr. GORDON: We have a joint arrangement on that. It is on a shared basis and we use the station along with them.

The CHAIRMAN: Was the heading carried?

Mr. CARTER: Oh no I asked a question earlier this morning and I think it was deferred until we reached this point of "Research and Experimentation". Have there been any new developments since you were here last year on the gas turbine question.

Mr. GORDON: The report on the gas turbines will show, I suppose, what is a lack of progress so far as we are concerned. The experimentation that is being conducted at McGill University which had to do with trying to develop a coal-burning gas turbine, in terms of establishing the heat exchanger for any form of use in any form of power plant and which in turn might have become possible in a locomotive, to the best of my knowledge has been discontinued and as far as I know, the financial aid which has been extended by the Federal Government has also been withdrawn. That is the status of the experimentation as far as my knowledge goes. I may be being too complete in that because it may be that McGill has other plans.

Mr. BYRNE: There is an item this year—it will not be an experiment as far as the government is concerned—but that is not an entire abandonment of the experiment itself.

Mr. JOHNSTON (*Bow River*): Mr. Chairman, I think the Minister of Mines and Technical Surveys in his statement, either this year or last year, indicated to us that this experiment was coming along very satisfactorily. In fact I believe I remember his comparing it with the progress made in the United States and my understanding is that they have a railway train or a railway engine running in the United States using this gas turbine method.

Mr. GORDON: Yes, but it is an oil burning gas turbine in the United States and it is in use on the Union Pacific. What we are talking about here is a coal burner.

Mr. JOHNSTON (*Bow River*): What we were talking about in the house was a coal burner and a discussion arose out of the program carried on here in Canada and the advantages of a gas turbine. At that time the minister indicated that it was a very satisfactory program and he went so far to suggest that the members might profitably visit the plant in Montreal.

Mr. GORDON: There was an experiment going on in Montreal.

Mr. JOHNSTON (*Bow River*): Yes. He said he thought it would be beneficial if the members should take a visit to that plant. I admit that is what the minister himself said regarding it.

Mr. GORDON: I can only speak of my own knowledge in the Canadian National Railway. To my knowledge the experiment has not been proceeded with in a way where it would be of interest for use on a gas turbine locomotive.

Mr. JOHNSTON (*Bow River*): I accept your explanation, because we certainly have not made very much progress. But the question is whether it would become commercially profitable to use it. I have difficulty in estimating the statements that you have made now, but I agree with you with regard to what the minister said because he gave the house the impression that the experiment was going on very well.

Hon. Mr. MARLER: Might there not be a distinction drawn between the development of the gas turbine and its use in railway performance?

The CHAIRMAN: And for other purposes too.

Mr. JOHNSTON (*Bow River*): I would think not because I remember mentioning to the minister that this experiment in the United States was similar to ours, and I think he agreed that it was; and he said at the time that they were keeping a close watch on it. Now I am surprised to learn that the experiments with the gas turbine in so far as Canada is concerned are almost at a standstill. In fact they are at a standstill. The reason is that we in the west particularly were basing our hopes—and in the maritimes as well—that as a result of the development of this type of engine it would help out our coal situation.

Mr. KNIGHT: If I remember correctly the minister when answering a question asked by Mr. Gillis—I did not get the impression that they were making much progress.

Mr. GORDON: Perhaps I might interject this at the risk of getting myself into more trouble. But my understanding of the McGill experiment was that it was particularly pointed at an effort to make use of Nova Scotia coal. It was the use of Nova Scotia coal with which they were particularly involved in in trying to work this out. They ran into difficulties with fly ash in the heat exchanger and things of that kind.

There is an experiment going on in the United Kingdom which offers some interest in the use of coal burning gas turbines. The British Transportation Commission is taking a very keen interest in the experiment and in the road tests of the locomotives. We are keeping in close touch with that experiment and we shall be able to form some idea of it as time goes on.

Mr. JOHNSTON (*Bow River*): You mean just you and your officials as far as the railroad is concerned?

Mr. GORDON: Yes.

Mr. JOHNSTON (*Bow River*): But is there any contact with it by the government?

Mr. GORDON: I have no idea.

Mr. JOHNSTON (*Bow River*): Or by the Department of Mines and Technical Surveys?

Hon. Mr. MARLER: I do not think it is reasonable to expect Mr. Gordon to answer a question like that dealing with the Department of Mines and Technical Surveys.

Mr. JOHNSTON (*Bow River*): I agree. I think we were about to be a little too optimistic in regard to what the minister said in the house.

Mr. BYRNE: I know something about that experiment. I have shown enough interest in it to make two trips to McGill where Professor Mordell has been carrying on those experiments. If Mr. Johnston should have a discussion with Dr. Ignatieff in the fuel division over here, he would find that Professor Mordell feels confident that he is developing a coal burning gas turbine. The government has spent a considerable amount of money on it as well, and it has been developed to a point where it is of interest to industry generally not just the coal industry or the rail industry. But at the present time with the process of dieselization under way you cannot expect the railways to be too interested at this moment in a coal burning turbine which would replace diesels. Professor Mordell feels that it has very good prospects. The only difficulty at the moment is that they are having trouble in getting an alloy which would not pit in the heating stages. There is a sum of $25,000 to $50,000 to be spent this year for experiments in so far as the government is concerned, but it represents an experiment which is worth while. It is entirely different from anything we have in the United States or in the United Kingdom in that fresh air—that is, air which has no connection with the furnace itself—goes through a heat exchanger to drive the turbines. It would make a very efficient engine but at the moment while gas and oil is in great supply there perhaps is not a great deal of initiative in developing it. However there is no doubt it is an excellent experiment and that there will be a good turbine developed in the future.

The CHAIRMAN: I think any further discussion so far as the gas turbine engine is concerned might be left for the Department of Mines and Technical Surveys. Now, if there are any other matters regarding research for the Canadian National Railways, we might deal with them at this time.

Mr. JOHNSTON (*Bow River*): I want to connect this with the Canadian National Railways. Mr. Byrne seemed to be more of an expert on it than Mr. Gordon, but I still rely on Mr. Gordon's statement to the effect that the matter was pretty much at a standstill.

Mr. GORDON: The situation as I understand it—and I merely repeat what my technical officers inform me as a result of their observations is as follows. The problem in regard to the coal burner gas turbine was concentrated in this question of the heat exchanger. But the heat exchanger was not necessarily designed for the purpose of a locomotive. If they solved the problem of a heat exchanger they might have industrial power plants interested in it.

Mr. JOHNSTON (*Bow River*): They might have them?

Mr. GORDON: Yes, but in regard to the most recent information I have, the difficulty of the heat exchanger has not been solved in a way which would be of any interest to locomotive operation. At this moment we do not believe that the coal burning gas turbine has practical possibilities in terms of locomotive operation.

Mr. JOHNSTON (*Bow River*): I would accept that theory; I would agree with you.

Mr. GORDON: We are in touch with the British proposition which may be a different thing altogether. My officers may tell me three months from now that they have got on to something. The same is true for the United States with the oil burners, and so on. We are learning.

The CHAIRMAN: Are there any further questions on "Research and Experimentation"? Is the item agreed to?

Item agreed to.

"Competition"

Mr. HAMILTON (*York West*): How many agreed charge contracts have you now?

Mr. GORDON: The most recent information I have seems to be about the last week in February. There are 167.

Mr. HAMILTON (*York West*): Have they proved to be an advantage to you in the competitive situation?

Mr. GORDON: Very much so indeed. It is the most effective tool in the matter of competition that we have discovered, and it gives us a chance to use the inherent advantage of the railway to retain traffic or to attract traffic back to the railway which would be lost to trucking.

Mr. JOHNSTON (*Bow River*): I think this would come under the same heading. Because of the agreed charge you are able to use your trucks by loading them on to flat cars. That would be a "piggy-back" operation?

Mr. GORDON: No, No. It has no bearing on that at all.

Mr. JOHNSTON (*Bow River*): In a great many of these agreed charges are not cars transported or trucks on the track by rail?

Mr. GORDON: No. The agreed charge is a form of competitive rate whereby the shipper guarantees a given percentage of his traffic and he is covered by contract. He agrees to supply a given percentage of his traffic and we make him a concession in the rates. When we make an agreeement of that kind, then any shipper of similar goods which move under substantially the same conditions is entitled to become a party to the agreeed charge already in effect, and he may do so merely by making an application and then by abiding by the terms of the contract. The agreed charge is technically an agreed rate. It has nothing to do with "piggy-back" transportation at all.

Mr. JOHNSTON (*Bow River*): It is a competitive rate that is applicable to all railways?

Mr. GORDON: Yes, that is right.

Mr. JOHNSTON (*Bow River*): Whether it be your railway the Canadian Pacific, or another railway?

Mr. GORDON: That is right. And my recollection is that all railways have to agree to it.

Hon. Mr. MARLER: No, just a single railway can agree to it.

Mr. JOHNSTON (*Bow River*): I did not hear that statement of the minister.

Hon. Mr. MARLER: I was asked if all railways had to be a party to the agreed charge. I think if you consult the statute you will find that it is not a necessary condition.

Mr. JOHNSTON (*Bow River*): No, but they can avail themselves of it if they wish.

Hon. Mr. MARLER: That is right.

Mr. FULTON: If you negotiate an agreed charge—let us take the case that Mr. Hahn used, between Prince George and Vancouver; that would not mean that a shipper between Kamloops and Vancouver would get the benefit of it?

Mr. GORDON: No. They would have to adhere to the conditions of the contract which are spelled out.

Hon. Mr. MARLER: It would have to be under similar conditions.

The CHAIRMAN: Shall the item carry?

Mr. HAMILTON (*York West*): What increase was there last year in the number of these agreed charges? It is now 167, you say.

Mr. GORDON: In July, 1955, there were 70. Let us take the figures at end of each year. There have been 60 added during 1956.

Mr. JOHNSTON (*Bow River*): On page 23 you say:

> The trailer-on-flatcar service continued to attract an increasing volume of business, and, as a result, 26 new trailers were placed in service during the year.

What is the rate paid for this trailer service, for the transportation of trucks on the railway?

Mr. GORDON: Trailer service is only provided by the railway itself. We quote a tariff rate for the transportation of trailers which we pick up at the shipper's point of origin and ship out to the destination, and then deliver them to him. In other words, it is a trailer and it goes on a flatcar but it is our trailer. It is a railway company trailer; it does not belong to the shipper or to any trucking company. We do not handle any other trucking company's trailers on the "piggy-back" at all.

Mr. JOHNSTON (*Bow River*): It does not make any difference what commodity there will be in it; it goes by that flat rate?

Mr. GORDON: There is a tariff rate that is quoted in terms of the commodities which are carried in the trailer.

Mr. JOHNSTON (*Bow River*): Is there any rate granted to the truckers who partake of that service? Is there any rate paid at all to the truckers to acquire that service as well?

Mr. GORDON: No. This is a railway service only.

Mr. JOHNSTON (*Bow River*): And it is not open to other truckers?

Mr. GORDON: No.

Mr. JOHNSTON (*Bow River*): Is that the case in the United States?

Mr. GORDON: It varies there. Some railways do, and some do not.

Mr. JOHNSTON (*Bow River*): Have you in mind what railways do offer this service besides yours?

Mr. GORDON: I could get the information. I would have to check it, but the best known one is the Pennsylvania railroad.

Mr. JOHNSTON (*Bow River*): Have any of our trucking industry applied for permission to send their trailers on flatcars?

Mr. GORDON: There have been suggestions made that we might carry trucks on our flatcars. So far we have not made a rate for it.

Mr. JOHNSTON (*Bow River*): So far you have prevented them from doing it?

Mr. GORDON: So far we have not quoted a rate.

Mr. JOHNSTON (*Bow River*): Does that mean they are prevented from partaking in it?

Mr. GORDON: It means that they cannot use the service because the service is a railway service.

Mr. JOHNSTON (*Bow River*): Is there any contemplation by the Canadian National Railways of making available such a service?

Mr. GORDON: Let me put it this way; if a shipper came to us and insisted upon our carrying his trucks loaded with goods, and he claims the privilege, as a common carrier he would get a rate, yes, but it would not be a rate that he would use.

The CHAIRMAN: Is the item "Competition" agreed to?

Mr. GORDON: In other words, the normal rate from his point of view would be prohibitive, yes.

Mr. JOHNSTON (*Bow River*): In that same paragraph you say some progress has been made in providing more inexpensive meal service on trains.

Hon. Mr. MARLER: I thought we had completed discussion on that.

Mr. JOHNSTON *(Bow River)*: I do not want to go into it a length, but I wonder if that only refers to the improved methods that the railway is applying to the dinette and the buffet service.

Mr. GORDON: Yes. It refers to the dinette and the new car I referred to as the cafeteria, a car which we have just put into service.

Mr. JOHNSTON *(Bow River)*: But there is no other improvement except that?

Mr. GORDON: No. That is the idea in mind.

The CHAIRMAN: We are now on the heading Co-operation under the Canadian National-Canadian Pacific Act, 1933.

Mr. HAMILTON *(York West)*: Is there any real reason why we should not have the information as to the percentage of take that the national system gets from the pool runs? I do not mean the total volume but rather the percentage.

Mr. GORDON: I am in a bit of a quandry there because it is a joint undertaking with the C.P.R. and, from whatever information I gave you, you will be able to figure out what their portion is.

Mr. HAMILTON *(York West)*: Yes; but I could not figure out the formula of what might be their portion of the tickets or anything like that. I think this information would be of interest as to how much the national railway gets out of the service.

Mr. GORDON: Could I attempt to simplify this. You wish to know the amount of traffic handled in the pool service and the percentage that is shared by the C.N.R. in it?

Mr. HAMILTON *(York West)*: Yes.

Mr. GORDON: I will take a look at that and see what I can come up with.

Mr. FULTON: Was it not the percentage of net that the C.N.R. gets out of it?

Mr. HAMILTON *(York West)*: The percentage of net revenue that is obtained by the national system out of the pool services.

Mr. ARMSTRONG: Do you mean the percentage of the Canadian National's net revenue?

Mr. HAMILTON *(York West)*: What is the percentage of the take that the national railway receives from the pool services?

Mr. GORDON: Having found what is the total revenue obtained out of the pool services, what percentage of that does the C.N.R. get?

Mr. HAMILTON *(York West)*: Yes.

Mr. GORDON: I may as well tell you what the C.P.R. gets. I should check with the C.P.R. to find out what their objection would be. I will either answer the question or bring their objections to the committee.

Mr. HAMILTON *(York West)*: I cannot see why they would object particularly where there is no reference to the formula which is used. They have so many lines of trackage and have so much equipment and so many places to sell tickets. I think we should know how our national railway comes out with reference to the net.

Mr. GORDON: I will endeavour to obtain that information, but I suggest as a matter of courtesy I should confer with the C.P.R. to find out whether they have any objections.

Mr. HAHN: This act applies to only pool service?

Mr. GORDON: No, no. The Canadian National-Canadian Pacific Act, 1933, is a general act which covers all sorts of things which enables the two railways to effect as many operating economies as they can, wherever joint services would be appropriate.

Mr. HAHN: I have something in mind concerning the lower mainland of British Columbia which would not only affect the C.N.R. and C.P.R. but also railway lines on the lower mainland. I am thinking of a general freight terminal centre. We have so many lines going into the metropolitan area that I am sure you realize the problem it will cause in the near future. I wondered if any consideration had been given to having a central terminal for other services.

Mr. GORDON: In Vancouver?

Mr. HAHN: And in New Westminster.

Mr. GORDON: There is no such study under way. It would have to arise as a matter of mutual agreement between the railways concerned.

Mr. HAHN: There has been no approach made in that respect by anybody?

Mr. GORDON: Not to my knowledge.

Mr. HAHN: I have one further question. Would you consider it would be desirable from the viewpoint of economy to have such study made at this time?

Mr. GORDON: I do not know; but I do know this, that we have so many studies under way I am very reluctant to undertake another. I cannot answer the question as to whether it makes sense or not. I think the primary objection would be such that it would not encourage a study being undertaken.

Mr. HAHN: Would it be possible to get in touch with the other railways in order to see if somebody would begin a survey? I feel it must be started some place and possibly a governmental source would be the best level.

Mr. GORDON: There are a lot of these ideas which at a first glance have an attraction but from a practical railway operating point of view are not just possible. I suspect that Vancouver is in that class. That would be my off-hand judgment. I will make a note of this and have a preliminary look at it. I certainly do not want to get involved in a whole series of new studies.

Mr. HAMILTON (*York West*): Would this be a fair observation, that the implementation of this act is more dependent upon economic conditions than it is upon a straight case of duplication? By that I mean was it not more forcibly adhered to, or implemented, during a period of depression than it is in a period of general good times?

Mr. GORDON: I think that is a fair statement, that anything accomplished under this act has been under the impact of economic stress.

Mr. HAMILTON (*York West*): Has there been extension of this type of thing since 1945 or 1946?

Mr. GORDON: Not in respect to the pool. I assume you are talking about the pool service.

Mr. HAMILTON (*York West*): Yes.

Mr. GORDON: No. There have been other things such as a joint effort on standardization of equipment and various other things. We have discussed with each other the matter of operating railways and conditions and specifications for equipment, and it has resulted in a good deal of standardization and the saving of a good deal of money. But this pool service was a one-shot proposition, and I do not want to predict we will see anything equivalent to that again. There is a strong opinion it should be undone now.

Mr. HAMILTON (*York West*): Has the pendulum swung to the other point where the national railway might feel it is competitively desirable for it to be independent and free of this type of thing?

Mr. GORDON: There are officers who think we should break the pool and there are others who think it would be economically wrong to do so. Most of the discussion centres around questions of prestige and morale, but from an economic standpoint the pool does justify itself.

Mr. HAMILTON (*York West*): Concerning the loss of long haul passenger traffic to the airlines, does that again represent a sinking back into the position where this act may again become more important.

Mr. GORDON: I would be guessing if I answered that. I do not know. I think as we go along there is more competition. I would not rule out the possibility, but I have nothing material I could refer to on that

Mr. HOWE (*Wellington-Huron*): I wonder if I could have a reply to the questions I asked yesterday with respect to the movement of mail from Palmerston to Southampton?

Mr. GORDON: We are organizing ourselves to answer all the outstanding questions at one time. However, perhaps in the meantime I could answer another question which is outstanding. I think you raised the question about Owen Sound. This is the information I have.

> The elevator, which is owned by Great Lakes Elevator Company, Limited, is on C.N.R. trackage. The C.P.R. absorbs a portion of switching charges on traffic moving to C.P.R. local points and all the switching charges on competitive traffic, either export or domestic. When the elevator was built around 1929, the town built a connection between C.N. and C.P. and they own and pay considerable maintenance charges on this trackage, which consists of a bridge across the Saugeen River between the C.N. and C.P. We do the switching.

In point of fact I do not think your statement is right, that they get all the business because there is a very good division of business between the two railways.

Mr. HOWE (*Wellington-Huron*): What percentage is it?

Mr. GORDON: In 1956 we ran about 45 per cent.

Mr. HOWE (*Wellington-Huron*): The C.N. had about 45 per cent?

Mr. GORDON: Yes. You were speaking particularly about Palmerston-Kincardine and Palmerston-Southampton?

Mr. HOWE (*Wellington-Huron*): Yes.

Mr. GORDON: There has been no change in the Palmerston-Kincardine or Palmerston-Southampton services but we did last summer tell the post office department that we were studying withdrawal because of apparent losses. Since they obtained that information, effective in September they went to the highways not only on these routes but also on the Stratford-Goderich, London-Palmerston and Palmerston-Durham routes. That was a decision taken by the post office. The railways instigated the move. Although we have not changed the service yet we told them it was in the process of consideration. We have a lot of discussions with the post office in respect to different types of services. They have gone to the trucking services on their own initiative in cases where they thought they could do a more flexible job. You will notice in the report I made specific reference to a special train which we put on between Montreal and Toronto which is based on holding for the railways that quantity of mail. Therefore, we gave them a six and one-half hour service.

Mr. HOWE (*Wellington-Huron*): The reason this was brought to my attention is that the people up in my area felt when the railways lost that revenue, which is about a third of the total revenue, that was one foot in the door and that they would lose the trains also.

The CHAIRMAN: We have now reached the Financial and Statistical Statements. Can we deal with these as a whole or do you wish to have each individual item called? They have been referred to several times in the previous discussions.

Mr. HAHN: Could we deal with them on a page basis?

The CHAIRMAN: All right. We will deal first with the Consolidated Balance Sheet on pages 26 and 27. Are there any questions? The next is Notes to Consolidated Financial Statements at December 31, 1956 and that is on page 28. Are there any questions?

The next is the Consolidated Income Statement on page 29. Are there any questions?

The next is Operating Revenues, page 30.

Mr. FULTON: On this I would like to make a comment and express appreciation on my own behalf and I am sure on behalf of others who recall last year Mr. Gordon and his officers set this up in a form which incorporated a lot of changes which we had suggested, and certain further suggestions were made as to the grouping of items under passenger service to show the relation between all items which might be said to be incidental to the passenger service. That has been done. We are very grateful, indeed, for the changes that have been made. I hope they have not made your job of accounting, and setting up your accounts any more difficult, because I think it has enabled us to get a very clear picture of how you carried out your operations.

Mr. GORDON: Yes, I agree. We are grateful for the suggestion because it does tell a much better story.

The CHAIRMAN: Operating expenses on pages 30 and 31?

Agreed to.

"Property Investment Statement" on page 32.

Agreed to.

"Recorded Depreciation Statement" on page 32.

Mr. FULTON: Do you want to make a comment at all, Mr. Gordon, or Mr. Armstrong, on those two items; "Addition to record amounts not included in this account under previous accounting policies as described in note one", and the other item at the bottom?

Mr. GORDON: On page 28, Note 1 does cover it, and it arises out of the application of uniform accounting as directed by the Board of Transport Commissioners.

Agreed to.

"Long Term Debt" on page 33?

Agreed to.

"Shareholders' Equity" on page 33?

Agreed to.

"Companies Comprising the Canadian National Railway System" on page 34?

Agreed to.

"Investments in Affiliated Companies not Consolidated"?

Mr. HAMILTON (*York West*): On this page, Mr. Chairman, first of all, I see that the Toronto Terminals Railway Company invested $250,000, and at December 31, 1956, it was the same amount.

I think it was last year we had special legislation in the house dealing with the extending of trackage there, and the collection of certain rental charges. Has there been an extension of the trackage, and has the railway put any money into this particular extension? Maybe it was the harbours.

Mr. GORDON: It is not in our books at all.

Mr. HAMILTON (*York West*): It does not come under the Toronto Terminals Railway Company?

Mr. GORDON: No. It is the—I have forgotten the name of it—it is the Toronto Harbour Commission, I think they call it. They own their own trackage down on the wharf.

Mr. HAMILTON (*York West*): Did the Toronto Terminals Railway Company put up the money?

Mr. GORDON: No.

Mr. HAMILTON (*York West*): They just handle the maintenance of it?

Mr. GORDON: We have a contract, or an agreement between the Toronto Harbour Commission and ourselves covering how we provide services over their tracks.

Mr. HAMILTON (*York West*): I thought it was the Toronto Terminals Railway Company that was supplying the additional funds for capital expansion there, to be got back on a rental basis. You do not recall that?

Mr. GORDON: I am sure that is not right. We did not put up capital there.

The CHAIRMAN: "Investments in Affiliated Companies not Consolidated"?

Mr. HAMILTON (*York West*): No. I see that we had 100 per cent interest in the Trans-Canada Air Lines. Is there any particular reason for the railway company to carry this as a wholly owned subsidiary here, or is there any advantage to the railway company to have it that way, or would the airlines company be better off if it were handling its own financial affairs?

Mr. GORDON: The advantage lies with the airline rather than with the railway. We break even on anything affecting the Trans-Canada Air Lines. We act as their bankers. You will find in the budget we included in our budget their requirement for capital investment. It is merely a convenience, a convenient way of handling this particular investment.

The history of it, of course, was in the days the Trans-Canada Air Lines was formed, and the Canadian National Railways provided a nucleus of an organization—provided a staff, in other words—to get the organization going. We still have a number of interlocking arrangements with them. For instance, we provide their legal services, we provide their medical services, we look after the treasury work, in the sense of the handling of their bank accounts, and things of that kind. But, over the years it is gradually drawing apart, and they are becoming more and more a completely independent organization in that respect. The reason we continue such operations as we do is, that we believe, between ourselves, that it is more economical to do so. We also provide a general secretary between the two companies, as well.

Mr. HAMILTON (*York West*): Has there been any indication to you that there is a saving, from the financial standpoint, that the national railway is able to borrow money cheaper for them than they could get it themselves, with government guarantee?

Mr. GORDON: It arises out of this: that the amount of the T.C.A.'s borrowing in relation to our borrowing is a rather small item. So, in the financial markets, an issue which is relatively small has not got as broad a trading market as our issues have, from the point of view of volume. Theoretically T.C.A. bonds, guaranteed by government, should command the same price. In practice, the market being what it is, it probably would not, because it is too small a trading unit, in respect of large buyers such as insurance companies and people of that sort.

Mr. HAMILTON (*York West*): Let us put the emphasis the other way. You said that, from the railway standpoint, it was just a break-even venture. Is there any advantage to the railway company?

Mr. GORDON: In part. There is the advantage that we are closely in touch with them, and from that point of view of traffic there is some interlocking in that respect. It is also the case that by these arrangements I have mentioned in respect to the secretariat, legal, medical, and so forth, they pay us part of our cost of operation. We charge them for those services, again, as I say, on a break-even basis, as near as we can figure. But the fact that it is a joint operation in these departments works out to the advantage of both of us, to some extent.

The CHAIRMAN: Shall the item carry?

Agreed to.

"Source and Application of Funds for the Year 1956".

Agreed to.

"Equipment Placed in Service During 1956".

Agreed to.

"Inventory of Railway Equipment".

Agreed to.

"Statistics of Rail Line Operations".

Agreed to.

"Revenue Tonnage by Commodities".

Agreed to.

"Operated Mileage at December 31, 1956".

Agreed to.

"A 25-Year Synoptical History of the Canadian National Railways".

Agreed to.

Mr. FULTON: Mr. Chairman, just before you carry the report, there is a general question I would like to ask Mr. Gordon, if he would not mind reviewing it for me, which has to do with the purchasing of further preferred shares by the government, under the C.N.R. Capital Revision Act. It is referred to specifically in the auditors' report. I do not want to ask a detailed question, but would you just review for me how that operates. It looks as though each year the government is going to become a larger and larger shareholder.

Mr. GORDON: That is right, that is the way it works. That arrangement, made at the time of the capital revision, was that it was pointed out that the shareholders of any normal company would normally be expected from time to time to provide more equity capital, in the form of retained earnings or otherwise as the business expanded. That is the usual way of developing a company, any industrial company. The question then arises as to what would seem to be a reasonable thing to recognize in terms of the C.N.R.

The formula was advanced that the amount of equity capital that might be ploughed into the property should bear some relation to traffic, and a figure of three per cent of the gross revenue was selected as representing a reasonable yardstick. So that each year we sell to the government preferred stock to the tune of three per cent of our gross revenue. And, on that preferred stock, we are required, if we earn, to pay a dividend of four per cent.

Mr. FULTON: So the equity ownership increases, and so does the dividend liability, if earned?

Mr. GORDON: That is right.

Mr. FULTON: Then must you think that some day there will be a cut-off for that? In other words, it is going to increase at the rate of about $25 million per year.

Mr. GORDON: That is right.

Mr. FULTON: Unless something happens in respect of a recession. What is your comment?

Mr. GORDON: The comment is that it will continue to increase, and when you come to our capital budget, you will see how our capital investment account is growing. What we are attempting to do is, keep the relationship between our equity capital and our fixed charges. Roughly speaking, our relationship is of the order of 60-40. We are trying to keep around that level if we can. In regard to the bonds, of course, we acquire fixed interest liability there, which is a direct charge. The equity capital on the preferred stock is a question of paying a dividend, if earned.

Mr. FULTON: You have no reason to question, at all, the amount by which your equity capital increases each year, in the light of experience? Is it working out to about the figure which keeps you happy, or is it going up rather faster than that?

Mr. GORDON: As a matter of fact, I am not happy about it, in a sense. Our additional borrowings in the form of bonds and so forth, as compared with other companies—I do not think it is satisfactory. But, I think those questions would be much more intelligently answered on the capital budget, if we can get on with that. I will give you some figures on that point, as a matter of fact.

Mr. HAMILTON (*York West*): Mr. Gordon, before the report passes, I think I would like to say that it is always a pleasure to deal with the report. There is a profit shown here, and there should be a few words of commendation on the fact that the company has shown a very much improved position this year over last year. For all those that contributed to it, the employees and everyone, they should be very grateful for it.

The CHAIRMAN: Thank you, Mr. Hamilton. I think we all share that opinion.

Gentlemen, you have heard the annual report of the C.N.R. for the year 1956. Will someone move and second the adoption of the report? Mr. Weaver moves, seconded by Mr. Fulton that the annual report of the C.N.R. for the year 1956 be adopted.

Motion agreed to and annual report adopted.

The CHAIRMAN: The next is the capital budget of the C.N.R., which is as follows:

CANADIAN NATIONAL RAILWAYS

CAPITAL BUDGET—YEAR 1957

	1957 Proposals	Cost to Complete Projects Authorized in Prior Years	Total	Page	1957 Expenditures
	(000)	(000)	(000)		(000)
ROAD PROPERTY					
Roadway Improvements.........	$ 57,173	646	57,819		$ 57,221
Large Terminals..................	3,028	37,355	40,383		8,370
Communications..................	13,178	9,631	22,809		14,861
Buildings.........................	8,283	10,579	18,862		8,185
Yard Tracks and Sidings........	5,226	1,178	6,404		2,940
Roadway and Shop Machinery..	3,377	440	3,817		3,610
Signals...........................	4,834	3,032	7,866		2,751
Highway Crossing Protection....	228	388	616		512
Line Diversions..................	816	4,805	5,621		1,271
General...........................	14,523	5,466	19,989		18,884
	110,666	73,520	184,186		118,605
Less—Uncompleted Work	—	—	—		36,000
Total—Road Property.......	110,666	73,520	184,186	(3)	82,605
BRANCH LINES.......................	—	13,453	13,453	(4)	9,445
HOTELS..............................	246	15,523	15,769	(5)	12,631
EQUIPMENT..........................	137,039	88,394	225,433	(6)	147,569
	247,951	190,890	438,841		252,250
INVESTMENT IN AFFILIATED COMPANIES............................	16,457	—	16,457	(7)	16,457
	$ 264,408	190,890	455,298		$ 268,707

	Total	1957 Expenditures
ADDITIONAL WORKING CAPITAL		
REQUIREMENTS	(000)	(000)
Amount required to finance temporarily, alterations to Victoria Bridge to co-ordinate with St. Lawrence Seaway............	$ 4,000	
General Purposes...	10,000	$ 14,000

NOTE:—The amounts required for refunding and/or retirement of maturing securities are shown on Page 8 hereof.

(Page 1 of C.N. Budget)

CANADIAN NATIONAL RAILWAYS

Statement of Financing Authority Required with Respect to Capital Budget

		(000)
YEAR 1957		
Gross Capital Expenditures		
Road Property	$ 82,605	
Branch Lines	9,445	
Hotels	12,631	
Equipment	147,569	
	252,250	
Investment in affiliated Companies	16,457	
		268,707
Additional Working Capital Requirements		
Amount required to finance temporarily, alterations to Victoria Bridge to co-ordinate with St. Lawrence Seaway	4,000	
General purposes	10,000	
		14,000
		282,707
Source of Funds		
Depreciation accruals, etc		84,600
Issue of Securities:		
Preferred Stock	24,000	
Additional Borrowing—1957	174,107	
		198,107
		282,707
January 1, 1958 to June 30, 1958		
Interim financial authority required with respect to capital projects authorized in 1957 and prior years:		
Gross Capital Expenditures		
Financing Thereof:		
Funds available from depreciation accruals, etc		42,000
		50,000
Issue of Securities:		
Preferred Stock	12,000	
Additional Borrowing	38,000	50,000

COMMITMENT AUTHORITY REQUESTED

Authority is requested to enter into contracts prior to the first day of July 1958 for the acquisition of New Equipment and for General Additions & Conversions that will come in course of payment after the calendar year 1957 in amounts not exceeding in the aggregate	91,500

EXISTING FINANCING AUTHORITY

Financing authority exists under Canadian National Financing and Guarantee Act 1956, Section 3 (1) (b) for an amount of $80,000,000. Estimated expenditures against this amount are $68,000,000 for Road and Equipment, and $12,000,000 for advances to Trans-Canada Air Lines.

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CANADIAN NATIONAL RAILWAYS

SUMMARY OF ROAD PROPERTY CAPITAL BUDGET PROJECTS BY AREAS

TOTAL OF 1957 PROPOSALS AND COST TO COMPLETE PROJECTS APPROVED IN PRIOR YEARS

	Atlantic Region	Newfound-land District	Central Region	Western Region	Grand Trunk Western	Central Vermont Railway	Other	Total
Roadway Improvements.........	$ 7,810,000	$ 1,767,300	$19,343,700	$26,525,000	$ 1,213,200	$ 1,160,400	—	$57,819,600
Large Terminals................	1,021,000	500,000	31,316,900	1,608,600	5,936,000	—	—	40,382,500
Communications................	—	—	—	—	—	—	$22,909,102	22,809,102
Buildings.........................	1,293,800	89,700	11,968,200	4,941,800	295,100	273,750	—	18,862,350
Yard Tracks and Sidings........	306,800	83,900	1,380,600	4,614,400	18,400	—	—	6,404,100
Roadway and Shop Machinery...	609,400	95,700	1,684,300	1,007,300	346,100	73,900	—	3,816,700
Signals..........................	1,060,000	—	3,097,200	3,586,300	93,600	28,400	—	7,865,500
Highway Crossing Protection....	20,000	—	212,700	19,800	349,100	14,500	—	616,100
Line Diversions.................	17,100	—	5,554,000	49,800	—	—	—	5,620,900
General..........................	713,800	541,950	3,856,400	2,753,500	395,700	205,500	11,522,366	19,989,216
	$12,851,900	$ 3,078,550	$78,414,000	$45,106,500	$ 8,647,200	$ 1,756,450	$34,331,468	$184,186,068
Expenditures—1957..............	$10,257,100	$ 2,313,550	$35,993,400	$36,568,700	$ 5,842,700	$ 1,545,900	$26,083,668	$118,605,018
Less—Uncompleted Work........	—	—	—	—	—	—	—	36,000,000
								$82,605,018

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CANADIAN NATIONAL RAILWAYS

Capital Budget—Year 1957

Branch Line Construction

Construction of the following new branch lines authorized by the indicated statutes:

	Authorization	Mileage
Terrace—Kitimat	Chapter 20, 1952	46
Hillsport—Manitouwadge	Chapter 49, 1954	27
Beattyville—Chibougamau—St. Felicien	Chapter 49, 1954	294
Bartibog—Heath Steele Mines	P.C. 1956-1070	23

	Total Authorized Expenditures	Expenditures to Dec. 31, 1956	Cost to Complete	Expenditures 1957
Terrace—Kitimat	$11,500,000	10,800,000	700,000	200,000
Hillsport—Manitouwadge	4,312,000	2,544,600	50,000	50,000
‡Beattyville—Chibougamau—St. Felicien	30,800,000	17,141,528	13,628,500	9,470,000
Bartibog—Heath Steele Mines	2,800,000	400,000	2,400,000	2,100,000
	49,412,000	30,886,128	16,778,500	11,820,000
‡Less—Subsidy on Beattyville-Chibougamau-St. Felicien Line	7,300,000	3,975,000	3,325,000	2,375,000
	42,112,000	26,911,128	13,453,500	9,445,000

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CANADIAN NATIONAL RAILWAYS

Capital Budget—Year 1957

Hotels

	1957 Proposals	Cost to complete projects authorized in prior years	Total	1957 Expenditures
"Charlottetown" Charlottetown, P.E.I.	$11,500	—	11,500	11,500
"Nova Scotian" Halifax, N.S.	3,075	—	3,075	3,075
"Chateau Laurier" Ottawa, Ont.	133,300	—	133,300	133,300
"Fort Garry" Winnipeg, Man.	29,925	15,582	45,507	45,507
"Bessborough" Saskatoon, Sask.	14,000	—	14,000	14,000
"Macdonald" Edmonton, Alta.	2,000	—	2,000	2,000
"Jasper Park Lodge" Jasper, Alta.	52,000	69,000	121,000	121,000
	245,800	84,582	330,382	330,382
"Queen Elizabeth" Montreal, Que.	—	15,438,000	15,438,000	12,300,000
	$245,800	15,522,582	15,768,382	12,630,382

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CANADIAN NATIONAL RAILWAYS

Capital Budget—Year 1957

Equipment

	1957 Proposals	Cost to complete projects authorized in prior years	Total	1957 Expenditures
	$	$	$	$
New				
Authority is requested for the financing of the undernoted equipment, the financing and/or ordering of which was authorized in Financing and Guarantee Acts in prior years..................	—	86,852,000	86,852,000	86,852,000
99 Locomotives				
95 Passenger Train Cars				
5,174 Freight Cars				
588 Work Equipment Units				
5,956				
Authority is requested for the ordering of equipment estimated to cost $132,081,000 of which $54,309,900 will be required to finance anticipated deliveries in 1957.....................	132,081,000	—	132,081,000	54,309,900
373 Locomotives				
92 Passenger Train Cars				
3,800 Freight Cars				
325 Work Equipment Units				
4,590				
Provision for special experimental equipment and for new types of equipment to be tested in operation..............	2,000,000	—	2,000,000	2,000,000
	134,081,000	86,852,000	220,933,000	143,161,900
General				
Additions, Conversions and Miscellaneous......................	2,958,000	1,542,000	4,500,000	4,407,100
Total—Equipment..................	137,039,000	88,394,000	225,433,000	147,569,000

Note: The particulars of the equipment required as indicated may be revised as to numbers and classes, but the total cost will not exceed the amount of the authorizations requested above.

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CANADIAN NATIONAL RAILWAYS

CAPITAL BUDGET—YEAR 1957

Investment in Affiliated Companies

	1957 Budget:
NORTHERN ALBERTA RAILWAYS	
(Joint with Canadian Pacific Railway Company) General Additions C.N.R. Proportion 50%	$ 1,989,000
CHICAGO AND WESTERN INDIANA RAILROAD	
Advances under agreements of March 1/36 and May 1/52	317,000
ATLANTIC AND ST. LAWRENCE RAILROAD	
Purchase of Capital Stock	1,500
BUFFALO AND LAKE HURON RAILWAY COMPANY	
Purchase of securities	1,150,000
Sub-total	3,457,500
TRANS-CANADA AIR LINES	
Advances in respect of Capital Expenditures (Year 1957 only)	13,000,000
TOTAL	$ 16,457,500

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CANADIAN NATIONAL RAILWAYS

RETIREMENT OF CAPITAL OBLIGATIONS INCLUDING EQUIPMENT PRINCIPAL PAYMENTS DURING THE YEAR ENDING DECEMBER 31ST, 1957

Due Date 1957			Amount
January	15	Canadian National Railways 2¾% Equipment Trust Series "V" Certificates	$ 675,000
March	1	Newfoundland Railway 2½% Registered Instalment Notes	71,583
	15	Canadian National Railways 2⅛% Equipment Trust Series "S" Certificates	2,800,000
	15	Canadian National Railways 2¼% Equipment Trust Series "U" Certificates	1,100,000
May	1	Canadian National Railways 2¼% Equipment Trust Series "T" Certificates	1,075,000
July	1	Canadian National Railway Company 4½% 30-year Guaranteed Gold Bonds	64,136,000
	15	Canadian National Railways 2¾% Equipment Trust Series "V" Certificates	675,000
September	15	Canadian National Railways 2¼% Equipment Trust Series "U" Certificates	1,100,000
November	1	Canadian National Railways 2¼% Equipment Trust Series "T" Certificates	1,075,000
December	1	Canadian National Railways 2% Equipment Trust Series "R" Certificates	560,000
			$ 73,267,583

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CANADIAN NATIONAL RAILWAYS

Operating Budget—Year 1957

	1957 Budget:	1956 Actual:
	(000)	(000)
Operating Revenues	$800,000	$774,801
Operating Eqpenses		
Maintenance:		
Road	149,100	140,379
Equipment	151,300	142,252
Total	300,400	282,631
Transportation	351,000	346,127
	651,400	628,758
Traffic	14,100	13,442
Miscellaneous Railway Operations	7,400	7,201
General	57,500	53,903
Total Operating Expenses	730,400	703,304
Net Operating Revenues	69,600	71,497
Taxes and Rents		
Provision for Income Tax	6,800	—
Other Taxes, Joint Facilities and Equipment Rent	27,200	24,705
Total	34,000	24,705
Net Railway Operating Income	35,600	46,792
Other Income	10,100	11,068
Available for Fixed Charges	45,700	57,860
Fixed Charges	38,000	31,783
Surplus	$ 7,700	$ 26,077

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I would like to ask Mr. Gordon to make a short statement, before dealing with the capital budget for the year 1957.

Mr. GORDON: Before we proceed with the actual examination of the 1957 budget, I think it would be helpful to the Committee for me to take a few minutes to outline some of the more important implications of the Canadian National's capital expenditure programs over the past few years and to define the premises on which our 1957 budget has been prepared.

During the five-year period commencing with the 1952 recapitalization and ending with 1956, the Canadian National's net capital expenditures have amounted to $608.6 million. These expenditures have been financed in this way:

(millions)

Net Expenditures			*Sources of Funds*		
Net increase in property:			Preferred Stock	$103.5	
			Depreciation	99.3	
Road	$219.6				202.8
			Additional Borrowings	436.8	
Equipment	378.6		Less—Loaned to TCA	31.0	
					405.8
Other Physical Property	10.4	608.6			608.6

First of all, under net increase in property accounts; on roads, $219.6 million; on equipment, $378.6 million; and on other physical properties, such as buildings, etc. $10.4 million. Those figures total to the $608.6 million that I have just mentioned.

The next question is, where did we get the funds to provide that huge amount of capital. From the sale of the preferred stock, Mr. Fulton, that we were just referring to. That gave us $103.5 million. Out of our depreciation, we produced $99.3 million. We had additional borrowings, either from the government, or through the sale of public issues, which netted $405.8 million. That gives you the total of $608.6 million.

You will also observe that from the preferred stock and depreciation jointly, that produced 33.3 per cent of our requirements, we raised through additional borrowings 66.7 per cent of our requirements.

This means then that it was necessary to finance two-thirds of the railway's capital expenditures from borrowed interest-bearing capital with a consequential marked change in the equity—debt ratio. At December 31, 1956, of the C.N.R. capital structure comprised 38 per cent borrowed capital and 62 per cent equity as contrasted with the 28 per cent—72 per cent relationship that existed immediately following the 1952 recapitalization. That brings out the point that we were discussing a moment ago when I said from the standpoint of equity versus borrowed capital we have deteriorated since 1952 by the figures I have mentioned. The interest charges on this additional borrowing together with depreciation charges on the increased property investment have the effect of adding approximately $33 million per year to costs (depreciation equals $16.8 million; interest equals $16.2 million).

Over this same five-year period the railway has earned a net surplus of $8.3 million after payment of fixed charges. This means that although the property earned its fixed charges it was not able to provide a return of any consequence on its equity capital. The 4 per cent dividend on the preferred shares alone (which represent slightly more than half the total equity) would have amounted to approximately $160 million during this period and even in 1956 the payment of $26.1 million fell short of the preferred stock dividend rate of $33.5 million.

The increase in fixed charges and depreciation to which I have directed attention need not be regarded as an alarming trend in itself. It does, however, serve to emphasize the stringency of the tests which we consider it prudent to apply before a capital project is included in our budget. Generally speaking we assess budget proposals in the light of four main considerations, i.e.,

1) *Self-liquidation*—these are the capital expenditures which produce a financial benefit after providing for operating expenses, depreciation and fixed charges on the new capital invested.

2) *Service obligations*—these are the capital expenditures which are not self-liquidating but which must be undertaken because of common carrier obligations to provide services, such as passenger services.

3) *Replacements*—these are the capital expenditures which entail making good the normal wear and tear on property essential to the safe and effective operation of the railway.

4) *Legal requirements*—capital expenditures entailed in complying with orders of the Board of Transport Commissioners or other competent authority.

And one of such things is protection at level crossings, signallings, etc.

In many cases a combination of these factors is present in a project. The return from the self-liquidating expenditures has been sufficient to produce an over-all net return after providing for increased fixed charges and increased depreciation on the total capital expenditures. This condition is in large measure attributable to the high returns obtained from the dieselization programme; since this programme is being carried out selectively with the object of developing the most attractive opportunities first, the rate of return will inevitably be less on expenditures made during the later stages.

If members of the committee will now look at page 1 of the papers before them, they will find in summary the 1957 proposals for new expenditures and the actual 1957 cash expenditures which are anticipated. Before referring to them in explanatory detail, I shall add one further comment having to do with the frame of mind in which we submit these proposals for approval.

In developing the 1957 proposals we have had particular regard to the impact on the Canadian economy of large C.N.R. capital expenditures during a period of heavy demand upon the resources of the country. On the one hand we feel we have a basic obligation to provide efficiently for an important proportion of the massive and expanding transportation needs of the economy despite the impact of rising costs, while on the other hand no prudent and responsible management could ignore the influence which the capital programme of an organization as large as the Canadian National has on the general price structure. The development of a capital program under such circumstances has not proved to be an easy task.

We decided to impose severe restraint on all recommendations reaching headquarters from our field officers and to insist that a high degree of essentiality must be demonstrated before projects were permitted into the budget now before you. In the course of this screening it will be of interest to record that we made reductions totalling some $120 million. This reduction was painful since it entailed deferring projects from which we could have derived economic benefits and limiting expenditures on self-liquidating projects to those which will produce an unusually high rate of return.

Now on page 1 you will see on the left-hand column summaries prepared in the format which we introduced last year and it shows the total cost of the 1957 proposals which you will see add up to the sum of $264,408,000 together with the cost to complete projects which have been authorized in previous years and which are in the process of completion, and which could be referred to as being re-votes in the sense that the projects have been authorized and are in varying stages of progress, amounting to a total of $190,890,000. That totals up to a grand total of $455,298,000. That is the capital budget in play and that grand total, assuming your approval is granted, means that the expenditures during the year 1957 will total $268,707,000 (in the column on the right-hand side). We add to that total a total of $14 million which represents additional working capital, $4 million being required to finance temporary alterations to the Victoria bridge to coordinate with the St. Lawrence Seaway and $10 million required because we need more money in our cash account to operate, mostly because of price increases. That gives you an idea and I place this before you on the basis of getting a birdseye picture of the total budget in play and I should like to suggest, Mr. Chairman, that if there are any questions on this part of it, this might be the appropriate time to answer them. The detailed sheets will come along one by one as we proceed.

Mr. HAHN: I have a question with respect to the $10 million, Mr. Gordon. Am I correct in interpreting this to mean that the depreciation you have allowed in the past year, with the inflated value of replacement today, would be included in that $10 million?

Mr. GORDON: No, that would not have any bearing on it. This $10 million we require simply because, (a) we have to carry a large inventory of supplies and prices are going up and we need more money to finance them and (b) in the course of our banking arrangements and so forth, the actual dollars that we have in hand is now more. It has nothing to do with capital expenses. It is just necessary for the day-to-day operations.

Mr. HAHN: Well then that raises another question on the report itself. I believe you said in the course of your submission that your depreciation amounted to $33 million. Now the question I have is, when the replacement of any item of depreciated value that you have taken over a period of years has changed your book values, would you show it through your actual depreciation? I presume that it is the difference between those figures and I am interested in knowing how do you make up the difference between the depreciated value and the actual book value, in other words, what you have to pay to purchase the goods to replace them.

Mr. GORDON: I presume you are talking about inflation, are you Mr. Hahn?

Mr. HAHN: Yes.

Mr. GORDON: On replacing an item, it is one of those accounting arguments that go on and there is a very definite difference of opinion on how it should be treated. How we treat it is that the original cost of the item stays in our books and is depreciated on a life basis under the formula that was set in the various classes by the Board of Transport Commissioners and when that item is finally retired then the new piece of equipment or whatever it may be, goes into our books at the new valuation or the new price paid and we commence depreciation on that book valuation from that point on.

Mr. HAHN: Does that new book value then not go on each year?

Mr. GORDON: Oh no, we would not revalue the equipment year by year, no.

Mr. FULTON: I would just like to be quite clear about one point as to whether the sum of $190,890,000 which is the cost of completing the projects authorized in prior years, will or will not require new money.

Mr. GORDON: Oh they will all require new money, yes.

Mr. FULTON: That is not another question of appropriation?

Mr. GORDON: No. What I am saying is that we have a total of $455,298,000 of capital projects in hand in this budget if it is approved and of that total we expect to require cash expenditures in 1957 to the point of $268,707,000.

Mr. FULTON: Yes.

Mr. GORDON: Now in that connection some of it will be spent to complete previous years' undertakings and some will be spent for new budget proposals. It depends on the question of timing.

Mr. HAMILTON (*West York*): So what you are saying, Mr. Gordon, is that you get authority but you do not go into the market for funds until such time as you need them.

Mr. GORDON: Until such time as we are ready.

Mr. HAHN: Mr. Gordon, there is just one more question with regard to the auditor's report where he is differentiating between the book value and the depreciated value—

The CHAIRMAN: Well we will be coming to that later, Mr. Hahn.

Mr. GORDON: I think it probably could be disposed of very quickly. That is a special adjustment, a "one-time" adjustment that took place as a result of the uniform accounting procedures put in by the Board of Transport Commissioners in January of last year and it is simply a transfer. It is fully explained in note 1 on page 28.

The CHAIRMAN: Now we are coming to page 2.

Mr. GORDON: On page 2 we have set out the statutory financing authorities which will be required and will come before the House of Commons in the form of the act. In 1957 expenditures of $268,700,000 that you see, has a first item of $139.5 million which relates to 1957 proposals and $129.2 million which relates to projects approved in prior years. The additional working capital we have already covered under "Source of Funds". And it gives you another recapitulation there and on the part below you will note under the heading "Source of Funds" that the additional amount we expect to end with in 1957 will be $174,107,000.

This gives you an insight as to how we are going to do our financing in respect to our cash aids. As you go further down, this outlines the financing authorities which are needed to implement this budget. Take the item first of all January 1, 1958 to June 30, 1958.

The annual Finance and Guarantee Act is the statutory authorization for the Canadian National Railways expenditures and addition of borrowing. Typically this act is passed by parliament towards the end of the first half of the year. As a practical measure the act for the current year, in this case 1957, also provides interim authority for capital expenditures on previously approved projects during the first half of the ensuing year, in this case 1958. This interim authority is superseded by the passing of the next year's Finance and Guarantee Act.

The caption "Existing Financial Authority" at the bottom of the page demonstrates how this process works; it sets out the extent of the interim authority which was provided by the 1956 act with respect to the first half of 1957. The interim needs having been met, these figures have now been moved up into the year 1957 totals at the top of the page for formal authorization in the 1957 Finance and Guarantee Act.

In the normal course of carrying out approved capital budget projects it is necessary for us to sign contracts with other parties, principally equipment manufacturers, which entail deliveries and payments falling outside the budget year. The total of such projects for 1957 is $91.5 million. The cash for such contracts during the first half of 1958 is included in the January 1, 1958—June

30, 1958 interim financial authority figure of $92 million while the balance will become a current cash item in the 1958 gross capital expenditure budget.

So these pages cover the legal requirements to implement the financing of the budget according to the procedure I have described.

Mr. HAMILTON (*York West*): Before you go on to the next page, this shows the amount of money you will need for this year. I suppose this expenditure falls into any one of the four classes.

Mr. GORDON: Yes.

Mr. HAMILTON (*York West*): Are these prudent expenditures and do you think that the railway having spent them will be able to make an amount of money required to cover the carrying charges on them?

Mr. GORDON: Well, under the heading of self-liquidating, my answer is yes. We regard all the expenditures as prudent and necessary for the efficient operation of the property. Some of them will give us better results than others. Some will give us a yield either in the form of saving of expenditures, or they will give us a return in the form of traffic which will enable them to be liquidated over the life period of whatever the particular expenditure may be. That is all. We call them self liquidating in this table. And the amount of self liquidating ones contained in this 1957 budget is 66 per cent.

We have a formula whereby we can measure them as self liquidating projects. It is not an exact formula by any means, but it does mean we can take into account interest, depreciation, increased operating costs, and the kind of profit, if it gives us a yield, which we think is satisfactory. We regard them as self liquidating.

A typical self liquidating item would be a diesel engine. In general on our first five year program we specified them by services, and whether we could demonstrate if it would pay for the capital investment in ten years.

Mr. HAMILTON (*York West*): In other words, the self liquidating item includes depreciation and it writes itself off completely.

Mr. GORDON: That is right. It provides for interest and depreciation which will write it off.

Mr. HAMILTON (*York West*): You have a 34 per cent maximum of service obligations and legal requirements?

Mr. GORDON: That is right.

Mr. HAMILTON (*York West*): Is that going to be too much?

Mr. GORDON: That is our struggle. It can only be shown by events. Over the last five years we have demonstrated—taking the good years with the bad—that we have been able to look after ourselves and to provide some $8.3 million which is a very low return on the equity investment, but nevertheless it means that the taxpayer is not being asked to put in additional funds. It means that the Canadian National Railways is a self supporting organization to that extent.

Mr. HAMILTON (*York West*): Where do you get to the danger level in connection with your borrowings and equity? If you continue along with this ratio of 66 to 34? You say right now we have 38 per cent borrowed and 62 per cent equity. Is there a breaking point here that we face?

Mr. GORDON: That can only be answered in terms of volume of traffic. If our volume of traffic continues to run along as it has been running, then we can support these expenditures. The other thing is the question of whether or not we are able to get our freight rates adjusted. As our wage rates rise or as our traffic rises—I have always said that the premise on which I make the statement that the Canadian National Railways can be a self supporting organization takes into account all the normal things. There are normal things in an economic life which must happen to us. We must recover in our charges for our services our additional costs. And if they were to be frozen in any way, we would be in trouble at once.

Mr. HAMILTON (*York West*): You would be in more trouble because of this type of financing, and you really have no resources to eat into.

Mr. GORDON: That is right.

Mr. FULTON: These depreciation accruals forecast an amount of $84,600,000.

Mr. GORDON: Yes. That is what we forecast will be our 1957 depreciation accrual.

Mr. FULTON: But against that you have to set off, do you not? Last year you set off a reduction in respect of retirements?

Mr. GORDON: Yes.

Mr. FULTON: So you actually recorded a depreciation increase of $39,660,000.

Mr. GORDON: No. That is a tricky point. We are talking about gross expenditures. If you will look at page 32 of the statement you will see what takes place. We made provision for depreciation under our heading "Recorded depreciation statement".

We accumulated a depreciation of $63,851,000 and we actually retired $24,190,000. It is merely an accident of timing. It happened that we reached a time when the equipment became worn out and was retired. It was relatively low this year when compared to the amount of depreciation itself. But over the years that depreciation will be required as the equipment is retired. It is particularly low around now because we are dealing with such a large amount of equipment that will be represented by our diesel program.

Mr. FULTON: I was looking at the source of funds for this year's budget and comparing it with last year's budget, and they compare with the back part of your statement of source and application of funds for the year 1956 as recorded in your annual report on page 35.

Mr. GORDON: Yes.

Mr. FULTON: In the last summary you offset against the amount of depreciation available an amount shown as a reduction in respect to retirements. It looked to me as if you realized that the cash available to you was somewhat less in your depreciation accruals than you had anticipated in fact. A lot less!

Mr. GORDON: I think Mr. Armstrong had better deal with your question. It is a question of net versus gross.

Mr. ARMSTRONG: It is a matter of presentation. We have expressed our property investment change as a net change. Therefore we have expressed our depreciation change as net. In the budget we present them both in gross. That is the difference.

Mr. HAMILTON (*York West*): Have your people analyzed the reports of the Canadian Pacific and do they give us any information as to the percentage of borrowed or funded debt which they have as against their equity capital.

Mr. GORDON: Yes. I have those figures. The figures I have do not include 1956. But taking four years as an example, 1952-1955, the published figures of the Canadian Pacific Railway show that they financed themselves to the tune of about 66 per cent of their requirements out of retained earnings, depreciation, and equity; and as far as we can see the equity portion is 4.2 per cent. The balance they borrowed.

In the class one American railroads the figures for the same four year period are as follows: the figure of retained earnings and depreciation appears to be 98 per cent. In other words, they were able to finance themselves almost completely without borrowing. Of course when you talk about

Canadian Pacific finances in that respect you should always remember that we are talking about all their income because a great deal of their income comes from non-rail sources.

Mr. FULTON: That is right; but I understood that you gave me figures as to where they got their money over the last four years in comparison with our set up here of 33 per cent of preferred stock depreciation, and 66 per cent of borrowings.

Mr. GORDON: Yes.

Mr. FULTON: What is the breakdown now of their borrowed funds and their equity capital in their over-all capital structure? How does it compare with ours?

Mr. GORDON: I can give it to you.

The CHAIRMAN: The bell is ringing for a division in the house. Perhaps Mr. Gordon would like to get an answer and give it to us when we come back after the vote in the house.

EVENING SESSION

8.30 P.M.

The CHAIRMAN: Gentlemen, we have a quorum now.

I think the first order of business we should discuss is, the hours of sitting to-morrow. If we are not able to finish this work that we have been assigned tonight, we will have to sit tomorrow. I gather that many of the different groups will be having caucuses at 11 o'clock tomorrow morning, so it will be impossible to hold a meeting between 11 o'clock and 1 o'clock. We will get about two or three hours in the afternoon, probably, but I do not know whether that will be sufficient. Would you perhaps wish to sit in the morning before caucuses, or do you think that we could finish in the afternoon, or perhaps sit later tonight. If we sat another half hour tonight we should be able to finish a certain amount of work in that time, and then, probably, finish tomorrow afternoon.

Mr. RICHARDSON: Let us start sitting late tonight.

Mr. HAMILTON (*York West*): When will the Trans-Canada Air Lines be here?

The CHAIRMAN: The T.C.A. will be here Thursday morning, so I want to finish all the work in connection with the C.N.R. and the Canadian National (West Indies) Steamships before they arrive on Thursday morning.

Mr. McCULLOCH, (*Pictou*): Sit half an hour late tonight.

The CHAIRMAN: Is it agreeable to everyone to sit an extra half hour tonight?

Mr. HAMILTON (*York West*): I would suggest, Mr. Chairman,—and I am not trying to put this off,—but let us see where we are at 10 o'clock, and if we can see that we will finish, we will keep on going.

The CHAIRMAN: I would be happy to do that, but we have to get notice out before the post office closes. Also, we have to post notices and see that the committees are noted in the votes and proceedings.

Mr. HAHN: Could we not sit tomorrow afternoon, beginning at 3 or 3:30?

The CHAIRMAN: 3:15 is when we propose to sit tomorrow.

Mr. HAHN: That is fine, after the orders of day, and perhaps during the supper hour. If it is an extra half hour we need, let us finish it in that half an hour.

Mr. HAMILTON (*York West*): I suggest, Mr. Chairman, that notice be posted for tomorrow afternoon, and when 10 o'clock tonight comes, we will know how much later we have got to sit tonight in order that we can get it finished in the three-hour period tomorrow.

The CHAIRMAN: All right, 3:15 tomorrow afternoon. Now, we were on page 2 of the capital budget of the C.N.R.

Mr. GORDON: Mr. Chairman, I was just finishing page 2 with a question that Mr. Hamilton asked. I have the figures now to show that, on the basis of the 1955 statement of the Canadian Pacific Railway their equity position was 63 per cent, and the debt position was 37 per cent. That compared, on the same date, with the C.N.R. in this way; we had 63.6 in the equity and 36.4 in debt.

Mr. HAMILTON (*York West*): Would you go over those figures again on the sources of funds that they had received, the comparative figures on that? You remember, we had 66 per cent borrowed capital, and 33⅓ per cent from preferred stock and depreciation.

Mr. GORDON: Yes.

Mr. HAMILTON (*York West*): What are the comparative figures on that again? One of the figures was 4.2 per cent, I think, on the equity.

Mr. GORDON: Yes. I said the C.P.R. showed that 66 per cent of the source of funds came in the form of retained earnings and depreciation and of that 4.2 per cent was equity.

Mr. HAMILTON (*York West*): Does that indicate that a larger amount of depreciation is being taken, or am I to gather from that that there is a larger amount of retained earnings?

Mr. GORDON: It would be a larger amount of retained earnings as I mentioned earlier, and a good portion of this retained earnings came from other than rail activities of the C.P.R.

Mr. HAMILTON (*York West*): Have you any figures that would lead you to believe that their report was much the same as your own, from actual rail operations?

Mr. GORDON: We have got the C.P.R. published figures in that respect, but when you talk about "rail returns" are you talking about the return on investment?

Mr. HAMILTON (*York West*): I am talking about that percentage they make on the actual rail operations as distinct from those other forms of income they have.

Mr. GORDON: Their published figures show that the return on rail operation only, in 1955, was 2.92 per cent. In 1956, it was 2.35 per cent. On the same basis of comparison, the C.N.R. figure is 1.46 per cent in 1955 and 1.80 per cent in 1956.

The CHAIRMAN: Page 2 carried?

Agreed to.

The CHAIRMAN: Page 3 of the budget?

Mr. GORDON: Page 3 shows a summary of the original property capital budget projects which have been recommended for this year. The top portion—that is, the figure shown in the frame there, shows the gross cost of the projects, by costs, and by area. These projects total, you will see the figure—the grand total is $184,186,010. I can tell you that of that figure $73.5 million represents carried forward from prior years, and $110.7 million are new projects in 1957. The line along the bottom there marked "expenditures—1957", shows the cash expenditure budget for 1957. It shows the total to be, as you observe, $118.6 million but we have reduced this to a figure of $82.6 million, by making a more or less arbitrary reduction of $36 million. Our actual expenditure for 1956 was $80.8 million. So that our contemplated expenditures are about the same.

Most of these projects, in this particular sheet here, entail outdoor work, and by reason of unpredictable weather conditions and uncertainties as to availability of materials and labour, we have considered this may be making it more realistic. The reasons why we have not made the reduction in the regions is, that it is not feasible to do that. It is only an arbitrary reduction, with the thought that if we find we can spend more money, we still have authority to do it.

Would you like to start on the first line there—"Roadway Improvements". Those are the figures summarized by region, which covers such things as rails, fastenings, ties, ballast, widen cuts and fills, rip-rap and retaining walls, roadways and paving, bridges, trestles and culverts, tunnels and everything of that kind in the roadway improvements. As I have said, the total gross for each region is shown there on the top line, and they reach a grand total of $57.8 million.

Are there any points there that you would like to clear up?

Mr. FULTON: We had a considerable amount of discussion this afternoon, Mr. Gordon, on the improvements to the service between the various districts. I see that the central region is to get the largest over-all share of capital expenditure, followed by the western region, and then by the Atlantic region, the Grand Trunk and Western Railway and Newfoundland. How do they compare in terms of mileages covered, and perhaps over-all population, and people served?

Mr. GORDON: All of the districts, with the exception of Newfoundland, which is very much higher than any other part of the railway, work out on a reasonably comparable basis. It is the roadway improvements that I am referring to. We have also a special program in the west, which is intended to be spread over about five years, which will give them a little more than the general average, but apart from that, the relative expenditure—which is what I think you have in mind— is at about the same rate per mile, with the exception of Newfoundland where, as I have said before, the total is very much higher.

Mr. FULTON: The relative total is higher?

Mr. GORDON: Very much higher.

Mr. FULTON: Have you got that broken down by population, or by the number of people served?

Mr. GORDON: I can give you some interesting figures on that.

Mr. FULTON: The things you gave me now were on the basis of mileage, I take it?

Mr. GORDON: Yes, that is right.

Mr. FULTON: And I asked you if you had it on the basis of population.

Mr. GORDON: If you take Newfoundland per mile on our 1956 capital expenditures, for instance, we are spending there at the rate of $6,680 per mile on these roadway improvements. For the rest of the system, the figure is $3,238. So, we are spending in Newfoundland more than double what we are spending anywhere else. It might be of interest, too, while we are on it, that our capital expenditures in Newfoundland since confederation have reached some very astronomical figures. I have before me, that our total expenditure, including this 1957 capital budget that we are now discussing, will run about $54 million since confederation, and we can add to that nearly $60 million represented by the operating losses taking place between the railway and the coastal steamships.

Mr. CARTER: Would it have been that much if they had built a standard gauge, Mr. Gordon?

Mr. GORDON: I do not think that has any bearing on it at all. A standard gauge railway, in the first place, would have cost originally a capital expenditure of not less than $150 million, and we would still have maintenance. I am talking of operating losses, and the operating losses have taken place as a result of the difference between our costs of operation and the revenues received. That figure, as I say, shows that between the railway and the Newfoundland coastal steamships the total, since confederation, is some $60 million.

Mr. CARTER: That figure you mentioned of $54 million, is that on roadway improvements alone?

Mr. GORDON: I beg your pardon?

Mr. CARTER: That figure of $54 million that you mentioned, is that roadway improvements?

Mr. GORDON: That is all. I will tell you that these expenditures I refer to cover all capital expenditures in Newfoundland. They cover roadway, shop and machinery, communications, betterment of rolling stock, and new equipment. I am talking about all capital expenditures for the purpose of running a railway, or at least, maintaining a railway and keeping it in operation.

Mr. CARTER: I am glad you made that clear because the way you presented the figures made me think you were spending that on roadway improvements, and you were making comparisons.

Mr. GORDON: No, I am talking about total capital expenditures, and I think you will find that is what I said.

Mr. CARTER: What have you spent on roadway improvements now, to compare with these figures here?

Mr. GORDON: I do not know if I have that broken down. It would not be far off about half the total that I have in mind. I can get the exact figures for you.

Mr. CARTER: Not far off it.

Mr. GORDON: It is on the basis of the figures I have here, that is to say, about half of the total expenditure that I have mentioned would appear in the roadway account and about half of it would have gone into the equipment.

Mr. CARTER: Yes; about $27 million on each.

Mr. GORDON: About what?

Mr. CARTER: About $27 million.

Mr. GORDON: Well, the figure I mentioned was about $60 million, was it not?

Mr. CARTER: You mentioned a figure of $54 million.

Mr. GORDON: Oh, yes.

Mr. CARTER: So that would be about $27 million.

Mr. GORDON: It would be about that order, yes.

The CHAIRMAN: Is page 3 carried?

Mr. FULTON: I have one small question, Mr. Gordon. You said this morning or this afternoon—I forget which—that your tentative plan for centralized traffic control equipment would cost in the neighbourhood of $40 million to complete.

Mr. GORDON: Yes.

Mr. FULTON: And I think you said perhaps it would take about 10 years. Therefore, I immediately figured it out to an average of $4 million a year; but I see that you speak of signal equipment in the amount of $7,865,500 this year. Are you starting off with a heavy initial expenditure?

Mr. GORDON: That is for all signal equipment, $7,800,000 covers all signal equipment and a proportion of that is for C.T.C. which will be about $6.4 million starting off this year.

Mr. FULTON: Oh yes.

Mr. GORDON: Now we have selected to start with a group of divisions, partly on an experimental basis, and our first expenditure we think will probably be heavier in order to get the benefit of the preliminary results. It will also tend to be higher, we think, than the later expenditure because we have to educate our staff and we have to work out the type of controls on a basis that will produce results.

Mr. FULTON: But you are pretty well committed to it from here on?

Mr. GORDON: We are trying to justify it each year. We are trying to justify the expenditure based on selecting a group of divisions and what will influence it a great deal will be the size of our budget. If we have a year when our other capital expenditures are, perhaps, not so heavy, then we will possibly press this a little heavier on this program.

Mr. HAMILTON (*York West*): Is this program something which you regard as self-liquidating?

Mr. GORDON: Yes, we do. It is, on the over-all picture. There are a number of places where it would not be, but on the over-all program it would be about marginal; in other words, it would pay off over the period.

Mr. HAMILTON (*York West*): Yes.

Mr. JOHNSTON (*Bow River*): Mr. Gordon, in the western division under "Large Terminals" you have $1,608,600. Where are those and what kind of construction is that?

Mr. GORDON: Where is this?

Mr. JOHNSTON (*Bow River*): On page 3 under "The Western Region".

Mr. GORDON: Oh yes; that is right. We have under the western region a figure which covers Clover Bar at East Edmonton, a continuation of the previously authorized project. That does not cost very much. We have an item of $200,000 in here covering the purchase of land in Port Arthur and covering the improvement and expansion of yard trackage to handle ore traffic from Atikoken and Steep Rock. And then we have at Atikoken an arrangement of additional track installation that will run about $20,900. We have one expansion yard at Redditt which is $73,700.

Mr. JOHNSTON (*Bow River*): Then you have an individual item of $1,680,000 down a little further for "yard, track and sidings"; that is another item.

Mr. GORDON: Oh no; that is under the large terminals. Those are yard sidings with trackages to keep this group under that total. Now there is a further construction to handles yard trackage at Port Mann, but this is a trackage area and we put that all in together with large terminals.

Mr. JOHNSTON (*Bow River*): How much of that was for Port Mann?

Mr. GORDON: Port Mann is estimated, as I understand it, at an expenditure of $223,000. In Winnipeg we have a proposal there, that is not quite worked out, in respect of a proposed new classification yard where we have an item of $180,000 although I do not want to disclose, as yet, where that might finally be located because the question of location involves the purchase of land. Finally at Calder in Alberta we have a large expansion, being part of a previous program there, which will total $901,000. That is an expansion and enlargement of our yard facilities.

Mr. JOHNSTON (*Bow River*): Under the item of "Buildings" you have $4,941,800. Does that include any stations or anything like that, any new construction?

Mr. GORDON: Buildings—under the western region?

Mr. JOHNSTON (*Bow River*): Yes, in the western region, $4,941,800 on page 3.

Mr. GORDON: The big item is under "Buildings in the Western Region" and that covers new diesel shop and shop equipment and trackage at Calder yard on which we have estimated an expenditure of $3,139,000. There are a whole lot of other smaller places but that is the large item.

Mr. JOHNSTON (*Bow River*): There is no intention at all of making a new station in Calgary, that is to say a C.N.R. station?

Mr. GORDON: No.

Mr. JOHNSTON (*Bow River*): Have you given any consideration to that, because the station we have there is certainly not a very attractive one and not very adequate to meet the increased traffic that you suggested some time ago.

Mr. GORDON: We have not planned anything in connection with a new station in Calgary. We feel that our facilities there are adequate to handle the traffic that we have at the moment in that location.

Mr. HAMILTON (*York West*): You have a nice new airport there anyway.

Mr. GORDON: There are many other things, of course.

Mr. JOHNSTON (*Bow River*): It is not a very attractive-looking one.

Mr. GORDON: No; but we cannot afford to spend money to make things look attractive at the moment, we have so many other things of more pressing importance to deal with, and that is low down on the list of priorities. There may come a time when we will be able to, or we may feel that we are able to, recommend such an undertaking but at the moment we have nothing of that kind under consideration.

Mr. JOHNSTON (*Bow River*): Well whenever you do start spending money on that type of thing we do hope that you will first consider Calgary.

Hon. Mr. MARLER: No personal pleadings, please!

Mr. JOHNSTON (*Bow River*): Well we do have that hope.

Mr. HAMILTON (*York West*): Well by the look of this statement this is going to take a long time.

Mr. KNOWLES: I would just like to ask one question with regard to this matter, although I noted that you said you did not wish to give certain information in regard to location because it involved the purchase of land for the new classification yard.

Mr. GORDON: Yes, that is right.

Mr. KNOWLES: Does that involve the abandoning of any property or operation presently being carried on?

Mr. GORDON: It will mean a rearrangement as between the facilities in the Transcona and Fort Rouge area and abandoning at Fort Rouge certain of our facilities. There will be some transfer from there so that our marshalling yard will be switched to a much more conveniently located spot than it is at the present time.

Mr. HAHN: I would like to ask Mr. Gordon one question—

Mr. GORDON: I have just one other point that I missed with reference to Calgary. There is an item in the budget for $35,000 which covers improvements and revisions to the present station which will give better facilities for the handling of the passenger trains there. But, as I say, that is a functional matter, because we are having difficulty in handling our trains at that point. It does not mean that it has anything to do with the station itself or improvement of the station.

Mr. JOHNSTON: (*Bow River*): Well, anything that you do will be an improvement.

Mr. HAHN: My question had to do with a point of view of Mr. Knowles—

Mr. KNOWLES: Well just a moment, if I may just finish, I would like to point out at first you said there would be a change involving a rearrangement of operations at Transcona and Fort Rouge. I think you said later only Fort Rouge, and I would like to be clear on that point as to just what is involved.

Mr. GORDON: Well, I am just checking on my memory here—the plan is that the marshalling facilities at Fort Rouge will be transferred into this new marshalling yard and the marshalling facilities, such as they are, at Transcona will also be taken into the new marshalling yard, but we will retain the shops at Transcona and such trackage there as needed to support the handling of shops.

Mr. KNOWLES: Can you say how soon you expect to settle this matter?

Mr. GORDON: Well it is in our budget for this year.

Mr. KNOWLES: Well how soon do you expect to purchase the property, so that it will be known where this place is to be?

Mr. GORDON: I am too cagey a bargainer to signal my operations in the making of a purchase, Mr. Knowles. It is immediate. It is in hand, but there are some interested parties who would very much like to know whether this matter is of such urgency that there is a deadline. There is no deadline. We can afford to wait if the prices are unreasonable.

Mr. KNOWLES: Well another aspect of the subject that occurs to me is, would it mean much of a shift as to place of work of the men; will they be affected?

Mr. GORDON: It will. There will be some influence in that respect in regard to the present location of where the men will work, yes. We are in close touch with our unions in regard to the matter. We will keep them informed and they will know what our plans are.

Mr. KNOWLES: Thank you. That was going to be my next question.

Mr. HAMILTON (*York West*): You are thinking of new housing developments.

Mr. HAHN: A couple of years ago, Mr. Gordon, the suggestion was posed by your department in regard to moving the shops from Port Mann. Regarding this expenditure of $223,000 which was included for this coming year, is it still the intention to go ahead and proceed with the removal of those shops to another location or what plans have you in mind now?

Mr. GORDON: The Port Mann item has to do only with yard trackage. It has no bearing on the buildings.

Mr. HAHN: Is it anticipated that it will be necessary to remove the shop which is there to another location?

Mr. GORDON: We have no immediate plan in that respect. We have the whole area in Vancouver under survey and we are trying to determine now what the future holds for it, but we have no plan worked out as yet.

Mr. HAHN: It does involve a question in my mind, you see, and I notice you have it under review—I take it that you are keeping this under consideration as an expanding area. Because this area is expanding rapidly.

Mr. GORDON: That is right. Vancouver is one of our very tender problems in the matter of congestion and we are not ready yet to recommend anything in the form of a solution to the matter. But it is under study.

The CHAIRMAN: Is page 3 carried?

Mr. Carter: No, just one second. I would like Mr. Gordon to tell us where he plans to spend that $\$\frac{1}{2}$ million under "Terminals".

Mr. GORDON: At St. John's, Newfoundland.

Mr. CARTER: Oh, at St. John's.

The CHAIRMAN: Is page 3 carried?

Agreed to.

Page 4, "Branch Line Construction", are there any questions on that?

Mr. FULTON: That is self-explanatory, is it not, Mr. Gordon?

Mr. GORDON: Yes it is.

Agreed to.

Mr. HAMILTON *(York West)*: I would just like to ask is this a self-liquiding item—are these projects in the class that you would say would be self-liquidating or have there been these other considerations brought into it, to force you to build these lines?

Mr. GORDON: These projects are all on the basis that they vary in regard to the nature of the arrangement. But in each case, take for example, Terrace-Kitimat, that is a traffic guarantee with the Aluminum Company whereby they have guaranteed that a given amount of traffic, that we had stipulated, will be forthcoming and if it is not forthcoming they will put us in the same position as if we had handled this business, and to that extent it justifies itself.

Mr. HAMILTON *(York West)*: Oh yes, I see.

Mr. GORDON: And then in regard to Hillsport-Manitouwadge, that is a risk which we have surveyed. We have surveyed that situation there and we are satisfied that enough traffic will be coming onto it, so this is a calculated risk on our part. Then with regard to Beattyville-Chibougamau-St. Felicien, that is in two parts and on that, after the survey on the whole line running through from St. Felicien to Chibougamau and so on, we felt that we could not justify a capital investment in terms of the foreseeable traffic and we have put it before the government, saying to what extent we feel we can justify it. The budget was discussed, and the government has voted a subsidy at the rate of $25,000 per mile to enable that line to be built. On the Bartibog-Heath Steele Mines that is on a traffic basis guarantee, similar to the Terrace-Kitimat.

Mr. HAMILTON *(York West)*: On the question of the subsidy, there are no considerations attached to that. You are not going to take responsibility for any repayment of interest charges in respect of this capital assistance subsidy paid by us on a mileage basis?

Mr. GORDON: No repayment—it is a capital assistance subsidy.

The CHAIRMAN: Is page 4 agreed to?

Agreed to.

Page 5, "Hotels"?

Agreed to.

Page 6, "Equipment"?

Mr. CARTER: I want to ask one question. I do not know if this is the proper place, but we were talking this morning about the possibility of replacing that motor vessel the Burin. If it were possible to purchase a boat suitable for that run, is there any item in this budget where that could be taken care of?

Mr. GORDON: No, that would not be in the Canadian National Railways budget. If any ship were purchased for that service it would have to be provided by the government. Under the arrangement now we are merely the operators of the ships.

Mr. CARTER: There is nothing in this budget then?

Mr. GORDON: No.

The CHAIRMAN: Is page 6 agreed to?

Agreed to.

Page 7, "Investment in affiliated companies"?

Agreed to.

Page 8, "Retirement of capital obligations"?

Agreed to.

Page 9, "Operating budget—year 1957"?

Mr. HAHN: What do we pay to the Great Northern Railway for the use of their line in New Westminster?

Mr. GORDON: We do not disclose that kind of information because it is a matter which affects another party. We have always taken the position that we should not be asked to disclose information of that kind.

Mr. HAHN: Is it based on a useage basis?

Mr. GORDON: Yes; it is based on what is called a wheelage basis.

The CHAIRMAN: Are there any other questions on page 9?

Mr. HAMILTON *(York West)*: We find the surplus predicted here to be considerably down this year which will mean of course a smaller return on the equity capital.

Mr. GORDON: This year we made provision for income tax of $6,800,000. That is a new item.

Mr. HAMILTON *(York West)*: We cannot carry over any losses?

Mr. GORDON: No.

Mr. FULTON: That reduces it from 26 to 20, and you have another $12 million reduction.

Mr. GORDON: I should say about the operating budget that it is no better than an informed guess. We had originally a very small net profit which was the excess of a very large revenue figure over a very large expenditure. A very small percentage swing in either revenue or expenses would have a major effect on the actual net result. So I do not do any more than put this before you as our best guess so to speak as to what we think it might be. We have taken account in that case of the increased freight rates that we have been granted, the last one starting January 1st; and we have taken account of the new wage increase on June 1st and all the factors we can guess at. Our estimate is that we will have—as a basis of assumption—that we will have predicted a 1957 volume of mix of traffic which generally would be the same as 1956. And with that assumption we come out with these figures. But if any of these assumptions should turn out to be wrong, it would throw these figures very badly out.

Mr. HAHN: I take it that if Mr. Harris' predicted increase in the gross national product should come about, it would affect this figure?

Mr. GORDON: It would depend on the mix of traffic. We cannot be too precise about it. I would emphasize that this is nothing better than an informed guess because we must guess at something when interpreting our expense account.

Mr. HAMILTON (*York West*): Do I understand that there is still a request in before the Board of Transport Commissioners for the balance of the original application for a freight rate increase and that it is sill pending?

Mr. GORDON: The railways have made application for a 15 per cent increase in freight rates. We have received two interim increases of 7 per cent and 4 per cent.

Mr. HAMILTON (*York West*): And there is a four per cent still to come?

Mr. GORDON: That is not included in our estimates.

Mr. HAMILTON (*York West*): Even though it is a guess, an additional amount is provided here in your gross operating expense revenues?

Mr. GORDON: Yes, but I must remind you that during the year we must absorb increased wage costs and a health and welfare plan which started at the beginning of the year, to the amount of $21 million.

Mr. HAMILTON (*York West*): That is in there?

Mr. GORDON: Yes, and I would point out that $21 million is quite a chunk of increased expenditure which we have to absorb to arrive at this figure. We have absorbed $21 million in increased expenditures in that one item.

Mr. FULTON: What item is that?

Mr. GORDON: Health and welfare and the wage award which comes into operation this year.

Mr. FULTON: I figure roughly from that that your total operating expenses are anticipated to increase by $27 million?

Mr. GORDON: Yes.

Mr. FULTON: So we have the statement and we have the ancillary benefit statement. Would they have accounted for three quarters of it?

Mr. GORDON: We can identify $21 million at once in the health and welfare plan, and there will be increased wage costs starting not only with what we have given last year, but on a full year basis it would be $21 million. I can say that one was traceable in all these wage results, so that with the wage settlements which we made last year—the impact for the whole of 1957 will be $21 million.

Mr. FULTON: So we may summarize it by saying that you anticipate a $16 million increase in revenue largely as a result of further freight rate increases which have been fixed to come into effect this year?

Mr. GORDON: That is right.

Mr. FULTON: And you anticipate a $27 million increase in operating expenses?

Mr. GORDON: Yes.

Mr. FULTON: Of which three-quarters is accounted for by wage increases and the wage package increases associated therewith?

Mr. GORDON: Yes.

Mr. FULTON: That leaves $7 million for increased costs.

Mr. GORDON: That is right.

Mr. FULTON: Do you think that is enough?

Mr. GORDON: I would say it is the best guess we can make. Usually our guesses for expenses are not too far out. For example I just heard it said that our oil bill—our diesel oil bill—our consumption of oil, by reason of the Suez situation will cost from $1½ million to $2 million more this year.

Mr. HAMILTON (*York West*): When do you expect to have a decision on the balance of this freight rate increase application?

Mr. GORDON: I do not know. Has the hearing date been announced? On the responsibility of Mr. Armstrong I will say that the date has been set for some time in May, but I have not been informed of it.

Mr. JOHNSTON (*Bow River*): As a result of the Suez situation you say your oil bill is going to be from $1½ million to $2 million more.

Mr. GORDON: Yes.

Mr. JOHNSTON (*Bow River*): What would be the effect of the increase in taxes on oil in Ontario?

Mr. GORDON: Oh, that affects highway traffic, doesn't it?

Mr. HAMILTON (*York West*): He is thinking of the provincial tax.

Mr. JOHNSTON (*Bow River*): I mean the provincial tax on fuel oil which you have to use on your diesels.

Mr. HAMILTON (*York West*): It is refunded, if it is collected.

Mr. JOHNSTON (*Bow River*): You would have to pay that tax when you buy fuel oil in Ontario now.

Mr. HAMILTON (*York West*): No, not for railways.

Mr. GORDON: I am not aware of that. I do not think the tax applies to us. The tax as I understand it was a tax on oil used in highway vehicles, a gallonage tax.

Mr. JOHNSTON (*Bow River*): I thought it applied to all fuel oil.

Mr. GORDON: Not according to my information. If it does, then it is a shock I have not got yet.

Mr. JOHNSTON (*Bow River*): I was wondering how it was going to affect the railway.

Mr. GORDON: We have not taken it into account.

Mr. HAMILTON (*York West*): I am sure it is for highway use. The only carry over was for aircraft, which was two cents, and which is not being repaid.

I have one further question. You told us there was a ruthless cutting of the capital budget to assist in this anti-inflationary drive; yet the money to be spent this year, as I understand it, is going to be more than last year. Does that mean that you started out with a great many more demands than last year and you cut down on that amount?

Mr. GORDON: No. It means that the rate in spending had got to the point that we were involved in projects that could not be stopped. A great deal of our 1957 expenses arise out of commitments which have been entered into. For instance, there was the matter of equipment. We had placed orders for equipment last fall in connection with the diesel program. We had to do so in order to get delivery any time this year. I can give you a general picture in that respect: that we had estimated our requirements in the first approach, what we would need in the way of equipment requirements on the basis of traffic our retirements of equipment and the figure for the utilization of equipment, and we budgeted for 7,600 units of equipment to take care of equipment of all kinds. But we cut that arbitrarily in half. We have not yet placed our orders for box cars because we are not satisfied with the prices quoted. We are now negotiating with the car companies telling them that we think their price is too high.

We have cut our planned dieselization program. We had it in mind this year to start complete dieselization by areas. You may remember that I said in previous committees that we would attack our dieselization program on the basis providing for specific services, in a five year program. We finished it last year and this year we started on complete dieselization on a territorial basis. Our plan was to start on each coast, west and east, and gradually complete it right towards central Canada. On the basis of that program we planned 654 units but we cut that down to 373 units. In other words we reduced it by 281 units which meant about $58 million. That means that the progressive rate of our dieselization has been slowed down. We have just slowed the whole thing down on the basis that we are attempting to do too much and that the country is attempting to do too much having regard to its productive capacity.

The CHAIRMAN: Is "Operating budget" agreed to?

Agreed to.

Page 7, "Capital budget—year 1957"?

Agreed to.

Mr. HAMILTON (*York West*): Just before we finish, is there any explanation that you would like to give us for the difference in the returns between the Canadian Pacific Railway Capital investment and the Canadian National Railways from rail operations? I notice in one case it is exactly twice as much, and then last year you improved the position a wee bit.

Mr. GORDON: Yes, there is a basic difference which accounts for it. There is a basic difference which you always have to keep in mind when you think about the Canadian Pacific and the Canadian National. The Canadian Pacific Railway is a planned railway. It is a branch line or a trunk line railway and it was a calculated planned development.

On the other hand the Canadian National Railway system started off with six bankrupt companies, all of them competitive with each other. So there wasn't any type of co-ordination possible. We still have not attained a railway as efficiently planned as the Canadian Pacific.

The other thing is this that if you look at a map you will find that we cover a pretty large mileage through country that has thin traffic. On the other hand the Canadian Pacific line runs through a much more heavily industrialized area generally than does the northern part of the Canadian National Railways. But we are beginning to come into our own.

That northern line which at one time was regarded as a white elephant is the line which today is beginning to show a very promising line. Take the Chibougamau line and running into that area. We are hopeful that the approach may be remedied to some extent in regard to this traffic. But these are basic reasons why we cannot expect to have a rate of return which would appear as high as that of the Canadian Pacific.

Mr. HAMILTON (*York West*): Is there anything which you feel is permitted in the overall financial setup of the company which would assist you in coming here? Is there anything which we might do here to assist the company in that connection?

Mr. GORDON: That is rather a tempting question.

Mr. HAMILTON (*York West*): Perhaps you have wanted an opportunity to say it.

Mr. GORDON: The fact is that was done for the C.N.R. at the time of the recapitalization. That was supposed to be the answer but there has not been enough time go by for me to say with any authority that the recapitalization was not sufficient. I am certainly hopeful that I will not have to ask for a financial readjustment of that kind.

The CHAIRMAN: It has been moved by Mr. Richardson, seconded by Mr. Mitchell, that the capital budget of the Canadian National Railways for the year 1957 carry.

Capital budget Canadian National Railways agreed to.

The CHAIRMAN: I would direct your attention to the 1956 annual report of the Canadian National Railways Securities Trust. In this report there is a great deal of statistical detail. Might we take it as having been read and include it in the record of the proceedings of this committee.

Agreed.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

MONTREAL, 2nd. March, 1957.

The Honourable George Marler, M.P.,
Minister of Transport,
Ottawa.

Sir,

In conformity with Section 17 of the Canadian National Railways Capital Revision Act, 1952 the Trustees of The Canadian National Railways Securities Trust submit the following report of the transactions for the calendar year 1956.

Application was made to the Governor in Council by the Trustees of The Canadian National Railways Securities Trust for the release of Canadian National Railways 4½% 25 year Guaranteed Bonds due February 1, 1956 securities in amount $2,632,000.00 for cancellation and cremation in accordance with resolution dated December 18, 1956 and approval was so granted under authority of Order-in-Council P.C. 1957-3 dated 3rd, January 1957.

The Trustees present herewith the Balance Sheet at 31st December, 1956.

D. Gordon
For the Trustees.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST
BALANCE SHEET AT 31ST. DECEMBER, 1956

ASSETS

Claims for Principal of Loans—		
Canadian Northern Railway	$312,334,805.10	
Grand Trunk Railway	118,582,182.33	
Grand Trunk Pacific Railway	116,006,599.08	
Canadian National Railway Company	96,936,971.75	$ 643,860,558.26
Claims for Interest on Loans—		
Canadian Northern Railway	$309,702,897.65	
Grand Trunk Railway	103,250,802.95	
Grand Trunk Pacific Railway	107,326,622.84	
Canadian National Railway Company	54,501,313.57	574,781,637.01
Transactions of Canadian National Railway System from 1st. January, 1937, to 31st. December, 1951, affecting the book value of the capital stock of the Securities Trust		108,480,697.14
Securities Held—		
Collateral Securities—Schedule A.1		....
Other Securities —Schedule A.2		....
		$1,327,122,892.41

LIABILITIES

Capital Stock Owned by Canadian National Railway Company—5,000,000 shares of no par value capital stock:—Stated value at 1st. January, 1952	$ 378,518,135.02
Amount by which the book value of claims and interest thereon exceeded the initial stated value as of 1st. January, 1937	948,604,757.39
	$1,327,122,892.41

R. D. ARMSTRONG,
Comptroller.

Certificate of Auditors

We have examined the books and records of The Canadian National Railways Securities Trust for the year ended 31st. December, 1956.

The Collateral and Other Securities, as set out in Schedules A.1 and A.2 attached hereto, were verified by examination or by certificates from the depositaries.

In our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Trust's affairs at 31st. December, 1956, in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1952.

Dated at Montreal,
2nd. March, 1957

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Summary of Indebtedness Transferred from The Government of Canada to The Securities Trust

Loans Outstanding			Notes and Collateral Held		
Canadian Northern Railway:					
3½%	Loan, Chapter 6, 1911	$ 2,396,099.68	None. Charge is on premises mortgaged October 4, 1911.		
4%	Loan, Chapter 20, 1914	5,294,000.02	None.		
5%	Loan, Chapter 4, 1915	10,000,000.00	None.		
6%	Loan, Chapter 29, 1916	15,000,000.00	Mortgages dated June 23 and June 26, 1916.		
*6%	Loan, Chapter 24, 1917	25,000,000.00	6%	Demand Notes	$ 33,012,414.32
*6%	Loan, Vote 110, 1918	25,000,000.00	6%	Demand Notes	27,203,003.65
*6%	Loan, Vote 108, 1919	35,000,000.00	6%	Demand Notes	40,031,122.27
*6%	Loan, Vote 127, 1920	48,611,077.00	6%	Demand Notes	53,008,779.65
*6%	Loan, Vote 126, 1921	44,419,806.42	6%	Demand Notes	50,259,312.47
*6%	Loan, Vote 136, 1922	42,800,000.00	6%	Demand Notes	46,691,634.60
			6%	Demand Notes	5,700,000.00
6%	Loan, War Measures Act, 1918	1,887,821.16	(3½%	Debenture Stocks	5,109,999.99
*6%	Equipment Loan, Chapter 38, 1918	56,926,000.82	6%	Demand Notes	56,858,496.44
*Mortgage covering loans above		....	Mortgage dated November 16, 1917		....
	Total Canadian Northern	$312,334,805.10			
Grand Trunk Railway:					
6%	Loan, Vote 478, 1920	$ 25,000,000.00	6%	Demand Notes	$ 25,479,226.97
6%	Loan, Vote 126, 1921	55,293,435.18	6%	Demand Notes	56,646,816.12
6%	Loan, Vote 137, 1922	23,288,747.15	6%	Demand Notes	23,288,747.15
4%	Loan to G.T.Pacific, Chapter 23, 1913, guaranteed		(4%	Demand Note	15,000,000.00
	by Grand Trunk	15,000,000.00	(4%	G.T.P. Debentures	15,000,000.00
	Total Grand Trunk	$118,582,182.33			
Grand Trunk Pacific Railway:					
3%	Bonds, Chapter 24, 1913	$ 33,048,000.00			
6%	Loan, Chapter 4, 1915	6,000,000.00	3%	1st. Mortgage Bonds	$ 33,048,000.00
6%	Loan, Vote 441, 1916	7,081,783.45	4%	Sterling Bonds	7,499,952.00
6%	Loan, Vote 444, 1917	5,038,053.72	Mortgage, June 28, 1916		....
6%	Loan, Vote 110, 1918	7,471,399.93	Mortgage, October 18, 1917		....
Receiver's Advances, P.C. 635, March 26, 1919		45,764,162.35	Mortgage, October 18, 1917		....
Interest guaranteed by Govt. of Canada		8,704,662.65			
Interest guaranteed by Provinces of Alberta and Saskatchewan		2,898,536.98	Receiver's Certificates		53,339,162.74
			Cremation Certificates, coupons destroyed		8,698,170.42
	Total Grand Trunk Pacific	$116,006,599.08	Cremation Certificates, coupons destroyed forward		2,925,723.88

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Summary of Indebtedness Transferred from The Government of Canada to The Securities Trust

Loans Outstanding		Notes and Collateral Held	
Canadian National Railway Company:			
6% Loan, Vote 139, 1923	$ 24,550,000.00	6% Canadian Northern Demand Note	$ 12,655,019.57
		G.T.P. Receiver's Certificates	3,313,530.01
		G.T.P. Interest Coupons (Cremation Certificates)	1,530,831.96
5% Loan, Vote 137, 1924	10,000,000.00	5% Canadian Northern Demand Note	1,318,315.86
		G.T.P. Receiver's Certificates	4,691,173.58
		G.T.P. Interest Coupons (Cremation Certificates)	1,530,822.24
5% Loan, Vote 377, 1925	10,000,000.00	5% Canadian Northern Demand Note	9,496,718.21
		G.T.P. Receiver's Certificates	Cr. 1,422,425.17
		G.T.P. Interest Coupons (Cremation Certificates)	1,530,802.80
5% Loan, Vote 372, 1926	10,000,000.00	5% Canadian Northern Demand Note	9,062,624.30
		G.T.P. Receiver's Certificates	Cr. 364,898.78
		G.T.P. Interest Coupons (Cremation Certificates)	1,530,880.56
5% Loan, Vote 336, 1929	2,932,652.91	5% Canadian National Railway Company Demand Notes	2,932,652.91
5% and 5¼% Loans, Chapter 22, 1931	29,910,400.85	5% and 5¼% Canadian National Railway Company Demand Notes	29,910,400.85
5¼% Loans, Chapter 6, 1932	11,210,815.56	5¼% Canadian National Railway Company Demand Notes	11,210,815.56
Less: adjustment authorized by the Capital Revision Act, 1937	Cr.1,666,897.57		
Total Canadian National Railway Company	$ 96,936,971.75		
Total Loans	$643,860,558.26		

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Securities Transferred from the Government of Canada to the Securities Trust Pursuant to the Provisions of The Canadian National Railways Capital Revision Act, 1952

Description of Issue	Amount: Sterling Currency	Amount: Dollar Currency
Canadian National Rly. Co. 4½% Twenty-five Year Guaranteed Bonds, due Feb. 1, 1956		$2,632,000.00
Canadian National Rly. Co. 4½% Thirty Year Guaranteed Bonds, due July 1, 1957		864,000.00
Canadian Northern Alberta Rly. Co. 3½% First Mortgage Debenture Stock, due May 4, 1960	£ 534,097	
Canadian Northern Ontario Rly. Co. 3½% First Mortgage Debenture Stock, due May 19, 1961	6,294,345	
Canadian Northern Rly. Co. 3½% First Mortgage Debenture Stock, due July 20, 1958	359,869	
Canadian Northern Rly. Co. 3½% First Mortgage Debenture Stock, due July 20, 1958		508,666.00
Grand Trunk Pacific Rly. Co. 3% First Mortgage Sterling Bonds, due Jan. 1, 1962	1,754,500	
Grand Trunk Pacific Rly. Co. 4% Sterling Bonds, due Jan. 1, 1962	90,900	
Grand Trunk Western Rly. Co. 4% First Mortgage Bonds, due July 1, 1950	649,500	
Grand Trunk Western Rly. Co. 4% First Mortgage Bonds, due July 1, 1950		1,293,500.00

The CHAIRMAN: Are there any questions on the Canadian National Railways Securities Trust?

Mr. FULTON: Are there any significant changes?

Mr. GORDON: There are no significant changes at all; nothing of consequence at all.

The CHAIRMAN: The next item of business is the auditor's account of the Canadian National Railways. We have with us tonight Mr. J. A. Wilson, F.C.A. and Mr. J. W. Beech, C.A., of the firm of Messrs. George A. Touche and Company, Chartered Accountants, who have prepared the auditors' report. I suggest that we might take the auditors' report as having been read.

Agreed.

GEORGE A. TOUCHE & CO.

CHARTERED ACCOUNTANTS

410 St. Nicholas Street
Montreal

5th MARCH, 1957.

The Honourable,
The Minister of Transport,
Ottawa, Canada.

Sir,

In accordance with the requirements of the Canadian National Railways Act we report, through you, to Parliament on our audit of the accounts of the Canadian National Railway System for the year ended 31st December, 1956.

The following report addressed to you appears at the foot of the balance sheet which together with the related statement of income is included in the annual report of the System.

> We have examined the books and accounts of the Canadian National Railway System for the year ended 31st December, 1956. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.
>
> In our opinion the above consolidated balance sheet and the related consolidated income statement are prepared on a basis consistent with that of the preceding year except for the changes in accounting policies described in Notes 1 and 2 which we approve, and subject to the position with regard to depreciation accruing prior to the adoption of depreciation accounting referred to in Note 1, are properly drawn up so as to give a true and fair view of the state of the System's affairs at 31st December, 1956 and of the results of operations for the year according to the best of our information and the explanations given to us and as shown by the books of the System.
>
> We further report that in our opinion proper books of account have been kept by the System and the transactions of the System that have come under our notice have been within the powers of the System.
>
> We are also submitting a supplementary explanatory report.

This is the aforementioned supplementary explanatory report.

CONSOLIDATED BALANCE SHEET

Temporary cash investments

These investments are carried at cost and consist of System securities aggregating $5.5 million and securities issued or guaranteed by the Government of Canada or Provincial Governments. The total market value based on market quotations at 31st December, 1956 was approximately $5.8 million being 8.7 per cent below cost.

Material and supplies

A physical inventory of material and supplies was taken by system personnel as at the 30th September, 1956. We carried out test observations of inventory quantities in connection with our review of procedures.

The inventory has been priced at laid down cost based on weighted average cost for ties, rails and fuel and latest invoice price for new materials in general stores, and at estimated utility or sales value for usable second hand, obsolete and scrap materials.

Insurance fund

At the balance sheet date the investments in the insurance fund, consisting of Government bonds and similar securities, had a market value of approximately $2.1 million or 14 per cent below cost.

[Page 3 of Auditors' Report on C.N.]

Investments in Affiliated Companies Not Consolidated

These investments are represented by capital stocks, bonds and advances to companies affiliated with but not forming part of the National System. Except for Trans-Canada Air Lines, they do not represent voting control and accordingly the companies are not treated as units of the System. Such investments have been made in association with other railways primarily to secure the benefits of traffic inter-change and terminal facilities. The basis of the balance sheet figure is cost or, in respect of certain United States securities, less than the special valuations approved by the Interstate Commerce Commission.

The accounts of these companies have in the majority of instances been audited by joint committees composed of system accountants and representatives of outside interests. We have carried out an audit of Trans-Canada Air Lines upon which we have reported separately.

Property Investment

Note 1 of the notes to the financial statements reads as follows:

> Depreciation on Canadian Lines: Whereas in prior years replacement accounting was applied to track structures and retirement accounting to road structures and certain other fixed properties, depreciation accounting has been applied to all physical property except land from January 1, 1956 including equipment and hotel property in respect of which depreciation accounting was adopted in 1940 and 1954 respectively. The rates used are based on the estimated service life of the properties without allowances for depreciation which was not recorded in prior years under the replacement and retirement accounting principles then in force. The full adoption of the depreciation principle in accounting for property had no material effect on the net operating results for the year 1956 and it would have had no material effect on the net operating results for the year 1955. The change in principle was made pursuant

to the adoption of the uniform classification of accounts prescribed by the Board of Transport Commissioners for Canada and the depreciation rates have been approved by the Board.

Depreciation on U.S. Lines: The policy of applying replacement accounting for track and depreciation accounting for equipment and other physical property except land has been continued. The principles of accounting for these operations are prescribed by the Interstate Commerce Commission and the rates have been approved by that body.

Book Values and Recorded Depreciation: During the year adjustments totalling $173,302,045 were made increasing the book values of properties and equipment with a corresponding increase in recorded depreciation to record amounts not included in these accounts under previous accounting policies. Without making a physical appraisal it is not feasible to determine the amount of depreciation accruing prior to the adoption of depreciation accounting; the foregoing adjustments have the effect of providing in part for such depreciation.

Additions since January 1, 1923 have been recorded at cost and properties and equipment brought into the System at January 1, 1923 are included at the values appearing in the books of the several railways now comprising the System to the extent that they have not been retired or replaced.

The adoption of depreciation accounting referred to in the foregoing note, after having used replacement and retirement accounting for many years, develops a question as to the amount of depreciation which, under the principles of depreciation accounting, would have accrued during such prior years. From the point of view of the Canadian National's accounts, considering that the Government of Canada is the shareholder, no serious difficulty would appear to develop until it becomes apparent that in respect of any one group of assets the accumulated depreciation will be insufficient to offset the aggregate service value (cost less salvage) of units to be retired. As far as track and road structures and equipment other than steam locomotives are concerned there is no indication of such a situation developing in the foreseeable future, therefore we make no recommendations in respect of these classes of assets at the present time.

In the case of steam locomotives, which according to present plans will be replaced by diesel locomotives within the next decade, it is predicted that a deficiency in accumulated depreciation will materialize which could amount to as much as $30 million. The circumstances relating to this particular class of equipment are unique in that with its retirement the entire class will disappear. Having regard to the circumstances and the underlying accounting principles we are of the opinion that consideration should be given to providing out of income for the anticipated deficiency.

(Page 4 of Auditors Report on C. N.)

The railway's officers have been examining this situation with the object of devising remedial action which will be consistent with good accounting practice, acceptable to the Board of Transport Commissioners for Canada and compatible with the governing statutes.

The adjustments to the property and recorded depreciation accounts, described in Note 1, have been submitted to the Board of Transport Commissioners for approval.

Additions to the property investment account less retirement during the year amounted to $162.8 million. A total of $63.9 million was provided as depreciation for the year of which the adoption of depreciation accounting for road and track structures described in Note 1 accounted for $32.5 million.

Other Assets and Deferred Charges

Investments under this heading consist mainly of a bank time deposit, Government of Canada and System bonds valued at cost and unlisted securities of a miscellaneous nature held primarily for purposes of traffic benefit valued at or below cost.

Deferred Charges consist principally of deferred payments under agreement; sundry deferred accounts receivable; the estimated salvage value of equipment and property retired; the unamortized cost of opening ballast pits which will be written off on the basis of yardage used; the estimated salvage value of non-perishable material in ballast pits and other temporary tracks; uncompleted security transactions, and miscellaneous debit items not otherwise provided for or which cannot be disposed of until additional information is received.

Other Liabilities and Deferred Credits

The principal items included under the above heading are the outstanding capital value of the workmen's compensation awards by the Provinces of Ontario and Quebec; percentages retained from contractors pending completion of work in progress; deferred payments of principal and interest under agreement; the estimated liability for injuries to persons; the estimated liability for overcharge claims; the estimated portion of prepaid revenues on freight in transit, and miscellaneous items not otherwise provided for or which cannot be disposed of until additional information is received.

Long Term Debt

System securities in the hands of the public of a par value of $76.8 million were repaid during the year. Additional funds of $154.2 million were received from the Government of Canada as temporary borrowings to finance public debt retirements, capital expenditures and additional advances to Trans-Canada Air Lines.

Shareholders' Equity

In compliance with Section 6 of the Canadian National Railways Capital Revision Act, the Minister of Finance purchased during the year from the Company at par 23,132,994 four per cent preferred shares of one dollar par value equal to three per cent of the gross operating revenues of the System for the twelve months ended 30th November, 1956. An additional 1,893,259 preferred shares of an aggregate par value equivalent to three per cent of the gross revenues for the month of December were purchased in January, 1957.

Pension Funds

As indicated in Note 5, funds accumulated by the railways were transferred to a pension trust fund. The company is trustee of the funds of the pension plans.

Because the railway's portion of the contributions is computed on the terminal funding principle it is determined largely by the incidence of the retirements in any given year and accordingly the railway has not set aside funds for the pensions conditionally accruing to those persons still in the employ of the System. Also it is noted that the railway deposits in the trust fund do not include provision for pensions granted under the pre 1935 non-contributory plan, increased benefits granted to former employees then on pension under the 1952 pension plan revision or for pensions granted under the Inter-Colonial and Prince Edward Island Railways plan.

The pension trust fund is no longer included in the balance sheet but is subject to audit by us.

(Page 5 of Auditor's report on C.N.)

CONSOLIDATED INCOME STATEMENT

As indicated in Note 2 to the financial statements a change in classification, required to comply with the uniform classification of accounts, has been made with respect to the results of operations of the system's electric lines and cartage and transport services. This reclassification of accounts and the full adoption of depreciation accounting for all depreciable property have had no material effect on the net operating results for 1956 nor would they have had for the previous year.

The increase of $85.5 million in operating revenues was due principally to the increased volume of traffic and to a lesser extent to rate increases granted for both Canadian and United States lines. Operating expenses were greater by $68.0 million reflecting increases in wage rates and employee benefits and higher material costs as well as the increased volume of business.

Taxes and rents increased $6.9 million due principally to the increased use of foreign line freight cars arising out of increased volume.

The increase in other income—net, of $3.4 million arises principally from interest income from Trans-Canada Air Lines, realty sales and repossessions, an adjustment of sales tax claims and an adjustment relating to part worn rail.

The decrease in fixed charges of $1.3 million is principally due to the retirement of public issues and their replacement with short term loans at lower interest rates.

The net profit of $26.1 million will be payable to the Government of Canada as a dividend on the non-cumulative four per cent preferred stock in accordance with the Canadian National Railways Capital Revision Act. This is equivalent to a dividend of 3.1 per cent on such stock.

GENERAL

Conversion of Foreign Currencies

United States currency has been converted at the dollar par of exchange; Other foreign currencies are not of material amount.

Corporate Reorganization

During the year the programme of simplifying the corporate structure was continued by the elimination of 19 companies including the Canadian Northern Railway Company, the Grand Trunk Pacific Railway Company and several of their subsidiaries, by amalgamation with Canadian National Railway Company.

Modernization of Accounting Methods

The intensive programme of reviewing clerical and accounting procedures, commenced a few years ago has been actively continued during the year. Marked progress has been made in the adoption of machines for accounting work and programming was well advanced for the establishment of an electronic computing centre for processing voluminous detailed information.

* * *

We wish to record our appreciation of the excellent co-operation and assistance received from the officers and employees of the System during our audit.

Yours faithfully,
Signed George A. Touche & Co.

(Page 6 of Auditors Report on C. N.)

The CHAIRMAN: Are there any questions on the auditors' report? First of all I might introduce to the committee Mr. Wilson and Mr. Beech.

Could we take the questions on the auditors' report page by page?

Mr. FULTON: Could we do it heading by heading?

The CHAIRMAN: The first heading is "Consolidated Balance Sheet".

Mr. HAMILTON (*York West*): Under "Temporary Cash Investments", and I think the question would also apply to the insurance fund, I notice that both these figures indicate a percentage below the cost of the securities in question. Is that generally because of the falling value of government bonds?

Mr. WILSON: Yes. That is the reason. Of course that loss would not be realized unless you did not keep them until maturity. In other words by holding them until maturity you do not realize the loss.

Mr. HAMILTON (*York West*): If that was held in these funds here you would get face value?

Mr. WILSON: Yes.

Mr. HAMILTON (*York West*): Generally this is what has happened in the case of everyone holding this type of security?

Mr. WILSON: That is right.

Mr. HAMILTON (*York West*): On the heading "Material and Supplies" what type of check is made on that inventory? Could you describe it in a minute or so?

Mr. WILSON: From the auditor's point of view; the basic responsibility is first to know that the company's procedures for taking physical inventory and for listing and pricing them; in other words, arriving at the total, are proper and will produce an accurate result. We test these, including observation of the methods employed in taking inventory, so that when we have finished we know that the inventory can be relied on.

Mr. HAMILTON (*York West*): It is a method of checking procedure and then an actual spot checking of individual items?

Mr. WILSON: That is right.

Mr. HAMILTON (*York West*): That is the usual practice you pursue with any company?

Mr. WILSON: Yes.

Mr. HAMILTON (*York West*): In how many places do you make an examination of the records of a company of this size?

Mr. WILSON: It covers quite an area.

Mr. HAMILTON (*York West*): You could just tell us the number. I do not think we have to know where.

Mr. WILSON: We have the regional areas, that is the Atlantic region, Central region, Newfoundland, Western region, Vermont Railways and Grand Trunk, Winnipeg, London, England, and France, and of course we cover the communications and the Canadian National hotels. That is pretty well the general group. It covers an area in Canada, the United States, England and France.

Mr. HAMILTON (*York West*): Are we going by pages, Mr. Chairman? May I turn over the page?

The CHAIRMAN: Are there any questions on page 2, "Investments in Affiliated Companies not Consolidated"?

Mr. HAMILTON (*York West*): On "Investments in Affiliated Companies not Consolidated" I asked Mr. Gordon about the reasons why we continued to carry Trans Canada as a wholly-owned subsidiary. Have you any comments to make on that. Is it essential for obtaining funds; does it make it easier to obtain funds to have it handled in that way?

Mr. WILSON: I think, Mr. Chairman, I have no observations to make on that point.

Mr. HAMILTON (*York West*): Thank you.

Mr. HAHN: Are we using two types of depreciation, one for Canada and one for United States lines in arriving at this report?

Mr. WILSON: If you include depreciation on an over-all basis, yes. The United States lines are still governed by the I.C.C. classification. The Canadian lines are governed by the Canadian classification.

Mr. HAHN: Which do you think is preferable?

Mr. WILSON: I do not think it is a question of being preferable. I think you do what is proper in each country.

Mr. HAHN: You would not care to comment as to which gives a truer picture?

Mr. WILSON: I think not. Both have their good and bad points.

Mr. HAMILTON (*York West*): On the question of depreciation, Mr. Chairman, there is a reference here, of course, to a deficiency which we are facing in connection with $30 million worth of steam equipment. Is this something which should be handled now; should it be started now on an annual basis through for a period of years or what is the ordinary good accounting practice on it?

Mr. WILSON: I think we have to consider it as a problem for examination. We have stated in our report we recommend it to be provided for out of income. The method is open but we think, as a general statement, that some means should be found to provide for that out of income.

Mr. FULTON: Does anyone know what the C.P.R. is doing with a similar problem? They must be faced with it also.

Mr. WILSON: Their published reports make no reference to it currently so far as I know.

Mr. HAMILTON (*York West*): I think Mr. Armstrong would like to make a statement.

Mr. ARMSTRONG: The C.P.R. do not appear to have this problem. There are several reasons, the principal one being that they were using depreciation accounting methods for a great many more years than we. They also took steps back in the early days when they first adopted this method to appropriate surpluses in an amount sufficient to requite the balance of depreciation reserves. That course was left open to them. They had large surplus balances and the corporate right to exercise that discretion.

Mr. HAMILTON (*York West*): We pursued a policy of write-off of expense items as we went along up to a point. Do I understand there was a first time in this when we started, fifteen years ago, to take depreciation on amounts set up?

Mr. ARMSTRONG: In the case of equipment, yes.

Mr. HAMILTON (*York West*): Did that include steam locomotives at that time?

Mr. ARMSTRONG: Yes.

Mr. HAMILTON (*York West*): What system was used when you set it up? What was the life expectancy say, of your locomotive power?

Mr. ARMSTRONG: We used one over-all average; it was thirty years for all equipment, 3.3 per cent.

Mr. HAMILTON (*York West*): Was it thirty years at that time or thirty years as the complete age for a locomotive?

Mr. ARMSTRONG: Thirty years for the complete life. It was not residual; it was total, 3.3 per cent, and has turned out to be a very reasonable rate on the average.

Mr. HAMILTON: Do we regard a locomotive as having a life expectancy of thirty years and say, for instance, if it was purchased in 1930 and you were setting this up in 1940 would you give it thirty years from 1940 or would you write off ten years in your calculation at that time?

Mr. ARMSTRONG: We gave it thirty years from 1940. That is prescribed by the specifications relating thereto.

Mr. HAMILTON (*York West*): Perhaps Mr. Wilson would tell us what has been done or if he has any opinion as to what should be done to make it proper for us to include this in our balance sheet on an annual basis. Is that a legal problem?

Mr. WILSON: I do not know. We heard Mr. Gordon say on that point that he thought there might be some possibility of it being that. From a strict accounting point of view we look upon it as a charge and some method should be found to make that charge. It could be all in a lump sum. There could be a number of methods used, but we think it should come out of the income account.

Mr. HAMILTON (*York West*): If I might refer back a page here, we have $7,700,000 budgeted surplus for next year. Was that taken into account? Perhaps Mr. Gordon would answer that?

Mr. GORDON: The problem involved in carrying out this recommendation could be analyzed something like this. First of all our board of directors will have to consider the matter and decide whether or not they wish to vote a charge chargeable to that account. If they were agreeable to that, we would then have to get the Board of Transport Commissioners' approval, because it would be an exception to the uniform accounting practice that they have told us about. We would have to sell them on the fact that it is a special matter.

Thirdly, we would have to convince the government that the present statute, governing the disposal of our surplus, could be regarded as permitting that kind of action to take place. If it turns out that the government's legal advisors feel that the statute is too restrictive to permit that, then we will have to discuss with the government whether they are willing to bring in legislation to permit it. Those three factors have to be taken into consideration.

Mr. HAMILTON (*York West*): May I ask this again: was there any thought given to the $30 million which is going to stare us in the face in, say five or six years, in this budget which you have proposed for next year?

Mr. GORDON: Yes. After we did arrive at our surplus of $26 million, I discussed with the government the question as to whether or not some of that could be transferred now to this depreciation account. That was where we then ran into the legal tangle. We had certain interpretations on it, that in due course, through the Minister of Finance, questions arose as to the legality of it, and for that reason we were not able to take any action in that connection this year, but in connection with 1956.

Mr. HAMILTON (*York West*): As I see it then, Mr. Wilson, there is the prospect here that, if this is not taken care of on an annual basis, suddenly we are going to be confronted with a statement, either that it is not reflecting the true position, or we are going to show $30 million suddenly being written off, maybe in a year when we have only got $7 million surplus, is that right?

Mr. WILSON: Actually what will happen, assuming this will all come to an end, and the figure is $30 million—you will appreciate that that is only a very rough estimate—you will end up with what we in accounting call a debit balance in reserve for the depreciation account, which is, in fact, carrying an asset, which no longer exists, on your balance sheet. That, of course, is not good. So, we are faced with the problem of getting rid of it, or having to state something to that effect in presenting the balance sheet.

Mr. HAMILTON (*York West*): If the system of an annual write-off came in, it might be possible that next year, on this budget, we might only show a surplus of a couple of million dollars?

Mr. GORDON: It depends on what the agreement will be. It would be perfectly correct for the government, for instance, in discussing with us, to look at our dieselization program and say, now, over the next period of five years, seven years, ten years, you are getting the special benefits from that, and therefore you should write off this over a period of ten years rather than five. It is merely a matter of a point in time. The objection to one part of it will be that there may come a point of time, if you spread it too long, as Mr. Wilson says, and we would still have a balance there to be written off, when the asset itself had physically disappeared. Generally speaking, that is not regarded as good practice, but there would be nothing wrong with it. I presume the auditor would feel constrained to make a comment to that effect in his audit. But, I do not want to put words in your mouth.

Mr. WILSON: I think the important thing, from the auditor's point of view, is that a plan is developed that enables the railway to take care of this.

Mr. HAMILTON (*York West*): Would you expect that in the ordinary course of events some decision will be taken on this, before we are back next year?

Mr. GORDON: Yes.

Mr. HAMILTON (*York West*): Of course, we may not be back next year.

Mr. GORDON: I do not know whether I will be either. The point will be decided by whoever is running the affairs of the company then.

The CHAIRMAN: Shall the item "Property Investment" carry?

Agreed to.

On page 5 "Other Assets and Deferred Charges". Any questions?

Agreed to.

"Other Liabilities and Deferred Credits".

Agreed to.

"Long-Term Debt".

Agreed to.

"Shareholders' Equity".

Agreed to.

"Pension Funds".

Mr. HAMILTON (*York West*): On "Pension Funds" this is a change, I understand here, in that this has been set up as a trust account, moved from where it was formerly carried in the balance sheet as a separate trust account, is that what has been done here?

Mr. WILSON: That is right, yes.

Mr. HAMILTON (*York West*): You have kept an audit on the trust account as well?

Mr. WILSON: That is right, we have. They are authorized securities, and we do the normal audit procedures.

The CHAIRMAN: Pension Funds carried?

Agreed to.

"Consolidated Income Statement".

Agreed to.

"General" Conversion of Foreign Currencies?

Agreed to.

"Corporate Reorganization".

Mr. HAMILTON (*York West*): Just by the way, would the auditor care to comment on this particular clause here? Will this simplify your work, and will it simplify the company's work from the accounting standpoint, if we attempt to eliminate all of these outstanding, or as many as possible of these outstanding corporations that we have?

Mr. WILSON: It always helps to some extent to consolidate. The more companies you have, even if they are only shells, the more trouble that is involved. For us, it is not a major problem but it does help.

Mr. HAMILTON (*York West*): I see.

The CHAIRMAN: Shall "Corporate Reorganization" carry?

Agreed to.

"Modernization of Accounting Methods".

Mr. HAMILTON (*York West*): I might ask a question here. I was reading the other day in the press of some new electronic brains that the C.P.R. were installing, apparently all the latest I.B.M. machines. In respect to the C.N.R., does your check indicate that is up to date from the automation standpoint?

Mr. WILSON: Yes. What I think I might say is, we have to be very careful about assuming that because we read about a certain type of machine, that it necessarily is comparable with the situation in another company.

Mr. HAMILTON (*York West*): Right.

Mr. WILSON: We know that in this particular organization, that having started not too many years ago, there has been a tremendous development in the use of this type of equipment. We are quite impressed with the intelligent approach and the methods being used to bring about the use of that equipment. I might mention in the payrolls alone, the equipment last year, I think I can safely say, was the most modern that was available. The new computer centre is one which, when it gets going, should be one of the finest in the country. Carrying out this program over a period of a few more years should see the C.N.R. with one of the finest mechanized electronic set-ups in Canada.

Mr. FULTON: Have you got a machine yet, or a brain; that will solve Mr. Gordon's problems regarding the actuarial situation that has shown up in the pension fund?

Mr. GORDON: I would like to make a comment at this point, because I think it is the time to say something about giving credit where credit is due.

The fact of the matter is, that with the C.N.R. it was not until the advent of Mr. R. D. Armstrong, who entered the company a few years ago, that we had anybody in the Canadian National Railways that had the faintest idea of what mechanical accounting was; and since his arrival with the company, he has managed to keep around him a group of young men who have done, in my opinion, an outstanding job of tackling this very complicated problem.

Mr. HAMILTON (*York West*): There is no question that the company is keeping abreast of all these developments that we have?

Mr. WILSON: Yes, without qualification I can say that they definitely are.

Mr. HAMILTON (*York West*): Mr. Wilson, have you any comment in connection with your general report? Is there anything that might be said that you may have missed?

Mr. WILSON: No, I think the report is intended to cover matters that we felt should be discussed.

Mr. FULTON: It follows very closely the policy of last year's report. I notice there does not appear to be much new, except the depreciation problem.

Mr. WILSON: That is the biggest problem.

The CHAIRMAN: Shall the auditor's report on the C.N.R. system carry?

Agreed to.

Moved by Mr. James, and seconded by Mr. Weaver that the auditor's report on the Canadian National Railways system carry.

I think that the committee would want me to express to Mr. Gordon, Mr. Dingle, and to Mr. Armstrong our thanks for their presentation of the report of the Canadian National Railways. I would also like to tender to Mr. Wilson and to Mr. Beech our thanks for their presentation of the auditor's report with regard to the Canadian National Railways system.

Then, gentlemen, I would direct your attention to the 1956 report on the Canadian National (West Indies) Steamships, Limited. I am going to ask Mr. Gordon if he will read the report.

Mr. GORDON: It is as follows:

CANADIAN NATIONAL STEAMSHIPS

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS LIMITED

DONALD GORDON,
President

MONTREAL, March 2, 1957.

The Honourable George C. Marler, M.P.,
Minister of Transport,
Ottawa.

Dear Sir:

On behalf of the Board of Directors, I submit herewith the Annual Report of Canadian National (West Indies) Steamships, Limited for the year ended December 31, 1956.

The loyalty and devotion to duty of the company's officers and employees are gratefully acknowledged.

Yours truly,

(*Signed*) D. GORDON

(Page 4 of C.N. Steamships Report)

ANNUAL REPORT 1956

In 1956 the operations of Canadian National (West Indies) Steamships, Limited produced a surplus of $23,281. This compares with a deficit of $95,964 in 1955 and represents a net improvement of $119,245. The surplus has been declared by the company's directors as a dividend on the capital stock held by the Government of Canada.

Net operating revenue rose by $121,979, from a loss of $49,079 in 1955 to a profit of $72,900 in 1956. This improvement is mainly attributable to a reduction of $105,207 arising from a change in the method of funding pension costs.

Net interest expense decreased by $51,119, reflecting the full-year effect of debt refunding during 1955.

The company's financial results are summarized in the following comparative table:

	1956	1955
Operating revenues	$6,125,470	$5,946,605
Operating expenses	6,052,570	5,995,684
Net operating revenue	72,900	*49,079*
Net interest expense	49,619	100,738
	23,281	*149,817*
Non-recurring profit from liquidation of vessel replacement fund securities	—	53,853
Surplus or *deficit*	$ 23,281	$ *95,964*

(Page 5 of C.N. Steamships Report)

Traffic and Revenues

Operating revenues were up $178,865, or 3%, from 1955. The improvement was a direct consequence of higher earnings from time and trip charters and other special tonnage. Revenues from these sources rose by 97% to $617,951, reflecting a greater availability of suitable cargoes.

Revenues from regular southbound, northbound and inter-island freight traffic declined to $5,332,386, down $111,765 from 1955. Passenger and miscellaneous revenues also showed decreases of $10,784 and $3,265 respectively, as a result of fewer inter-island calls and the temporary withdrawal of the "Canadian Cruiser" for repairs.

Southbound tonnage, at 130,316, was up 2% from 1955, chiefly because of increased flour movements to Jamaica. However, the additional earnings from this traffic were offset by tonnage decreases in higher rated commodities and, as a result, revenue per southbound ton dropped from $21.73 to $21.18.

Northbound tonnage declined by 14% to 182,307. This was due almost entirely to a decrease of 12.5% in sugar traffic. Higher rates for carrying sugar tended to mitigate the impact of the drop in volume, however, and the average revenue per ton for all northbound traffic increased from $11.78 to $13.29.

(Page 6 of C. N. Steamships Report)

Operating Expenses

Operating expenses were up $56,886, or 1%, from 1955. The principal factors were an increase of $155,148 in voyage expenses and the decrease of $105,207 in pension costs referred to on page 5. It is also pertinent to note, for comparative purposes, that 1955 voyage costs included a non-recurring expense of $82,756 for chartering a replacement vessel for one trip.

There were reductions in some voyage expenses notably fuel, crew wages, and insurance expenses, because of fewer operating days. However, these reductions were more than offset by higher vessel maintenance costs and increased freight handling expenses, commission and port charges.

Capital Expenditures

A total of $71,563 was spent in 1956 on the installation of refrigeration chambers in the five vessels not previously equipped with these facilities. All of the vessels in the company's fleet now have refrigeration facilities.

* * *

The Balance Sheet at December 31, 1956 and the Income Statement for the year will be found on pages 8 to 10.

(Page 7 of C. N. Steamships Report)

Mr. GORDON: There is the balance sheet at December 31, 1956. That will be found on pages eight and nine.

The CHAIRMAN: I think they can be taken as read.

Mr. GORDON: Thank you, Mr. Chairman. And the income statement on page ten.

The CHAIRMAN: And the income statement as well, and the pictures, and the names of the ships, and so on.

Mr. GORDON: The balance sheet is as follows:

BALANCE SHEET AT DECEMBER 31, 1956

ASSETS

Current Assets		
Cash on hand and on deposit	$1,021,881	
Accounts receivable	365,016	
		$1,386,897
Insurance Investment Fund		2,988,749
Capital Assets		
Vessels	6,596,917	
Less recorded depreciation	3,793,052	
		2,803,865
		$7,179,511

LIABILITIES

Current Liabilities			
Accounts payable		$ 479,822	
Government of Canada:			
Dividend payable	$ 23,281		
Current accounts	38,109		
Loan repayment due 1957	250,000		
		311,390	
Other current liabilities		28,850	
			$ 820,062
Provision for Insurance			2,988,749
Other Liabilities and Deferred Credits			195,700
Government of Canada Loan and Advance			
2½% loan repayable semi-annually maturing September 1, 1963		2,000,000	
Less repaid	325,000		
repayments due 1957	250,000		
		575,000	
		1,425,000	
Working capital advance		150,000	
			1,575,000

SHAREHOLDERS' EQUITY

Government of Canada		
Capital stock authorized and issued 16,400 shares par value $100 per share	1,640,000	
Less discount on capital stock issued	40,000	
		1,600,000
		$7,179,511

R. D. ARMSTRONG,
Comptroller.

AUDITORS' REPORT

To The Honourable The Minister of Transport,
Ottawa, Canada.

We have examined the books and accounts of the Canadian National (West Indies) Steamships, Limited, for the year ended 31st December, 1956. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the above balance sheet and the related income statement are prepared on a basis consistent with that of the preceding year and are properly drawn up so as to give a true and fair view of the state of the Corporation's affairs at 31st December, 1956, and of the results of operations for the year according to the best of our information and the explanations given to us, and as shown by the books of the Corporation.

We further report that in our opinion proper books of account have been kept by the Corporation and the transactions of the Corporation that have come under our notice have been within the powers of the Corporation.

We are also submitting a supplementary explanatory report.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

1st March, 1957.

(Page 8 of C.N. Steamships Report)

(Page 9 of C.N. Steamships Report)

INCOME STATEMENT

	1956	1955
OPERATING REVENUES		
Freight and Charter	$ 5,950,337	$ 5,757,423
Passenger	144,323	155,107
Other	30,810	34,075
Total	6,125,470	5,946,605
OPERATING EXPENSES		
Voyage expenses	5,460,598	5,305,450
Lay-up expenses	15,948	27,942
Depreciation on vessels	275,231	270,416
Management and office expenses	215,523	207,456
Pensions	55,000	160,207
Other	30,270	24,213
Total	6,052,570	5,995,684
Net operating surplus or *deficit*	72,900	*49,079*
Vessel replacement fund earnings	—	23,927
Profit from liquidation of vessel replacement fund securities	—	53,853
Available for interest	72,900	28,701
Interest charges	49,619	124,665
Surplus or *deficit*	$ 23,281	*$ 95,964*

NOTE: By reason of losses in prior years which may be carried forward for income tax purposes no provision is required for income taxes in respect of the current year's earnings.

(Page 10 of C.N. Standing Report)

FLEET AT DECEMBER 31, 1956

		Gross tonnage	Dead-weight tonnage
*"Canadian Challenger"	Diesel-powered and refrigerated	6,745	7,460
*"Canadian Constructor"	Diesel-powered and refrigerated	6,745	7,460
*"Canadian Cruiser"	Diesel-powered and refrigarated	6,745	7,460
"Canadian Conqueror"	Refrigerated	2,930	4,532
"Canadian Highlander"	Refrigerated	2,966	4,532
"Canadian Leader"	Refrigerated	2,930	4,532
"Canadian Observer"	Rfrigerated	2,967	4,532
"Canadian Victor"	Refrigerated	2,963	4,532
		34,991	45,040

* *Each of these motorships has five double and two single staterooms providing first-class accommodations for up to 12 passengers.*

(Page 11 of C.N. Standing Report)

The CHAIRMAN: Now, are there questions with regard to page one of the annual report?

Mr. JOHNSTON (*Bow River*): This has reference to page six, traffic and revenues.

The CHAIRMAN: Are there any questions with regard to page five, I am sorry.

Mr. JOHNSTON (*Bow River*): On page 6 with respect to "Passenger Miscellaneous Railways".

The CHAIRMAN: No, page 5, I am sorry. Is that carried?

Agreed to.

Page 6:

Mr. JOHNSTON (*Bow River*): In connection with page 6 on "Passenger and Miscellaneous Revenues" you must show a decrease of $10,784 and $3,265 respectively. I wonder if Mr. Gordon could explain was that due to a decrease of passengers?

Hon. Mr. MARLER: The reason is spelled out there it seems to me; the explanation is furnished in the text itself, Mr. Johnston. It says "as a result of fewer inter-island calls and the temporary withdrawal of the Canadian cruiser for repairs".

Mr. JOHNSTON (*Bow River*): Well what do you mean by "fewer inter-island calls"? There is a regular course, a regular schedule, is there not? There is only a stop at the larger islands, or have some of those been cut out?

Mr. GORDON: Well, you will recall that ever since we cut out the Lady boats, it is dictated by freight. We make calls in accordance with where we find freight. We do not carry on passenger schedules any more, but we do vary our trip, if we get information to the effect that we can pick up freight.

Mr. JOHNSTON (*Bow River*): Well would that change in the inter-island calls have an effect on the number of passengers going on these trips?

Mr. GORDON: Oh yes; because in these inter-island calls there is a certain amount of passenger deck-load traffic. When people know the boat is going from one place to another we can usually pick up some passengers.

Mr. JOHNSTON (*Bow River*): Has the passenger traffic on there been a good, paying proposition for the steamship?

Mr. GORDON: There is no way for me to analyse that. We only have three vessels which are equipped for passengers and there is room for 12 passengers on each. But they are always booked full and we charge what the traffic will bear. We put the price on that accommodation which will interest people in travelling on these ships and we feel we are getting as much as we can.

Mr. JOHNSTON (*Bow River*): I think the price is very reasonable because I have investigated the price of it.

Mr. FULTON: Well I think it is very high.

Mr. JOHNSTON (*Bow River*): I was wondering about this. I was under the impression that the passenger service which is carried on these lines was a very well-paying proposition for the company.

Mr. GORDON: I would not say that, I do not actually think so, because I believe that if we did not provide any passenger accommodation we could make more money out of pure freight.

Mr. JOHNSTON (*Bow River*): Well it is very excellent accommodation and service.

Mr. GORDON: But, remember, with passengers you run into a lot of extra cost in the matter of attention, waiters, kitchen staff and so on. If the ships were wholly freight I am sure that our net result would be better than it would be with the 12-passenger accommodation.

Mr. JOHNSTON (*Bow River*): Is there any contemplation of changing that and doing away with the passengers entirely?

Mr. GORDON: No, it would be too expensive. The accommodation is there.

Mr. FULTON: I believe we discussed this matter last year and the minister made a statement or gave a summary of a statement that he had made, in which he said he anticipated the average deficit would run about $200,000 per annum and this was made in relation to the question of whether the service was to be continued. This has always been a question which has been sort of left hanging in the balance.

Hon. Mr. MARLER: Yes.

Mr. FULTON: Now on the basis of results, has your opinion hardened or is it hardening in favour of continuing the service, or are you not able to say on the basis of one year?

Hon. Mr. MARLER: I think I made a perfectly comprehensive and comprehensible statement last year. I think that since the events which have taken place, it has demonstrated the wisdom of the statement that I made.

Mr. FULTON: Well the statement is not on the record in this committee and I have asked you for your forecasts of the future if you are in a position to give them.

Hon. Mr. MARLER: Well I have not the forecast with me, but I think I did explain last year we expected for the five-year period, we contemplated the operating service deficit would probably run about $200,000 a year; but we thought, taking into account trade relations and other reasons, it was highly desirable to continue the service, even though it may operate at a deficit for that period. Actual results, however, have shown that the estimates proved to be somewhat pessimistic. However, we do not know what is going to happen next year.

Mr. FULTON: How many years of these five years have now passed?

Hon. Mr. MARLER: This is the first of the five years.

Mr. GORDON: But you must remember, Mr. Minister, that one of the reasons the improvement was made was something which you did not have in contemplation at the time and that is that we spent money to provide refrigeration, and with that capital investment we have found there has been a very satisfactory demand for refrigerator space, which has improved the appearance of the operating results to that extent.

Hon. Mr. MARLER: Yes, that is true.

Mr. HAMILTON (*York West*): At this time could I insert a question. The minister said that one of the factors was this question of good relations and other things which we would want to maintain. Now with the new Carribbean federation coming along, is that a more important factor, from the standpoint? That is the first part of the question and secondary, do you feel that it may help business with this particular new commonwealth group being put together there, as one entity.

Hon. Mr. MARLER: Is the question addressed to me?

Mr. HAMILTON (*York West*): Well, it could go to either one of you.

Hon. Mr. MARLER: I do not think personally that the fact of the federation which has taken place changes the economic factors at all, materially. I do not think there is any question but that we could sell a great deal more in the way of goods to the West Indies if they had the Canadian dollars with which to pay for them. Of course, as we sell more I think the Canadian National (West Indies) Steampships will carry more, and as they carry more it is to be presumed that we ought to make more money. Of course we know that the volume of freight carried is not always the yard-stick by which you measure profits.

Mr. HAMILTON (*York West*): From the standponit of good relations within the commonwealth, it certainly would be a sign that we wanted to co-operate with them whenever we could do so.

Hon. Mr. MARLER: Yes, and I have had the opportunity of talking to one of the Prime Ministers of one of the islands and they very greatly appreciate that they have this service. I do think it is adding to Canada's good name in the federation.

The CHAIRMAN: Is page 6 carried?

Agreed to.

Page 7:

Agreed.

Pages 8 and 9—the balance sheet.

Mr. HAMILTON (*York West*): Now on pages 8 and 9 Mr. Chairman I notice where we are repaying this year $250,000 and I notice that this is taking almost the complete depreciation which I believe amounted to about $275,000. Now is that good from an operational standpoint, to remove any prospect of reserve there? Is this a mandatory payment of $250,000.

Mr. GORDON: Oh, yes, it is loan payment, yes, definitely—you are talking about the $250,000?

Mr. HAMILTON (*York West*): Yes.

Mr. GORDON: That is part of a bargain that we made with the government at the time that we put through our recapitalization scheme for the Canadian National Steamships. There was a similar scheme put through there in which the fixed interest was reduced and then we undertook the loan repayment.

Mr. HAMILTON (*York West*): Is that a fixed amount every year. I notice it says $325,000 had been paid up until this date, and then there is $250,000 in this year's statement.

Mr. GORDON: Yes. The account is based on the cash which becomes available from depreciation. Mr. Armstrong reminds me that it will be roughly about the same.

Mr. HAMILTON (*York West*): Well this is going to place us in the same position, is it not, as a railway. We are going to use it up completely—

Mr. GORDON: No in this case we have not been borrowing any for capital expenditures.

Mr. HAMILTON (*York West*): No, but if you use your depreciation reserve or you do not create a depreciation reserve, other than through the payment of money, when you need improvements you are going to have to borrow money.

Mr. GORDON: We are paying down a debt here, though. It has exactly the same effect as if we had depreciation money and invested it. Instead of that we are paying down this debt. And then if we have to buy new equipment or make some improvements—

Mr. HAMILTON (*York West*): You would have to go out and borrow it?

Mr. GORDON: Yes, we would have to borrow it. It is a means of saving interest charges.

Mr. FULTON: One question which I do not think was raised last year is on the question of our liabilities to repay part of this loan in 1957, which is shown as a liability in the balance sheet as of December 31st, 1956.

Hon. Mr. MARLER: That is because it becomes a current liability.

Mr. FULTON: But it is surely not a liability.

Hon. Mr. MARLER: It is a short term liability. I do not know what the maturity date is but quite obviously that is the reason.

Mr. ARMSTRONG: In accounting practice that liability is payable within the ensuing year and therefore it is current and it is a short term liability.

Mr. HAMILTON (*York West*): You pay it off against current assets.

Mr. GORDON: It is included among current liabilities and it could be down below, against what may be described as the government of Canada loans and advances. It does not materially alter the balance sheet, but it is shown where it would customarily be shown in corporate accounting as short term liability.

Mr. FULTON: With excessive caution.

The CHAIRMAN: Was the balance sheet carried?

Agreed to.

The CHAIRMAN: Income statement on page 10; are there any questions?

Agreed to.

Fleet at December 31, 1956 on page 11?

Agreed to.

Shall the annual report of the Canadian National (West Indies) Steamships Limited carry?

Agreed to.

It is moved by Mr. Hahn and seconded by Mr. Carter that that annual report of the Canadian National (West Indies) Steamships Limited be carried.

Carried.

Capital budget and operating budget, year 1957.

That is to be found on page 10 of the budget reports. Are there any questions on page 10?

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

Capital Budget and Operating Budget Year 1957

	1957 Budget: (000)	1956 Actual: (000)
	$	$
Income Account		
Operating Revenues	6,310	6,126
Operating Expenses	6,253	6,053
Available for Fixed Charges	57	73
Fixed Charges	45	50
Surplus	12	23
Capital Budget		
General Betterments	135	72

Note:—Capital Expenditures to be financed out of depreciation accruals.

Hon. Mr. MARLER: Just before the item carries I would like to remind the members of the committee that there is a provision in the estimates for a deficit for the year 1957 which will not be necessary in view of the fact that since the budget was prepared the estimates of results has changed and instead of a deficit there will be a surplus. Consequently I shall ask that the necessary change be made in the estimates to take account of this change in the prospects.

Mr. FULTON: We are actually going to have a reduction in estimates in the house!

Hon. Mr. MARLER: Yes. That is something worth pondering.

The CHAIRMAN: Is the budget agreed to?

Agreed to.

The auditor's report consists of two pages, page 9 and page 10. We will take page 9 first. Are there any questions?

GEORGE A. TOUCHE & CO.
CHARTERED ACCOUNTANTS
410 St. Nicholas Street
Montreal

5th March, 1957.

The Honourable,
The Minister of Transport,
Ottawa, Canada.

Sir,

We report, through you, to Parliament on our audit of the accounts of Canadian National (West Indies) Steamships, Limited for the year ended 31st December, 1956.

The following report addressed to you appears at the foot of the balance sheet which with the related income statement is included in the annual report of the Corporation.

> We have examined the books and accounts of the Canadian National (West Indies) Steamships, Limited, for the year ended 31st December, 1956. Our examination included a general review of the accounting procedures and such tests accounting records and other supporting evidence as we considered necessary in the circumstances.
>
> In our opinion the above balance sheet and the related income statement are prepared on a basis consistent with that of the preceding year and are properly drawn up so as to give a true and fair view of the state of the Corporation's affairs at 31st December, 1956, and of the result of operations for the year according to the best of our information and the explanations given to us, and as shown by the books of the Corporation.
>
> We further report that in our opinion proper books of account have been kept by the Corporation and transactions of the Corporation that have come under our notice have been within the powers of the Corporation.
>
> We are also submitting a supplementary explanatory report.

This is the aforementioned supplementary explanatory report.

BALANCE SHEET

Insurance investment fund

At 31st December, 1956, the investments in the fund, consisting of Government bonds and similar securities, had a market value of approximately $2,600,000 or 11 per cent below their cost. This potential loss will occur only if it is necessary to sell the securities prior to maturity.

Capital assets

Vessels are carried at cost less accumulated depreciation. Provision for depreciation during the year was made on a basis consistent with that of the preceding year using the following rates:

Three diesel powered vessels: 5 per cent per annum.

Five steamships: 3 per cent per annum.

We are informed that all equipment has been maintained in efficient operating condition during the year.

Mr. HAMILTON (*York West*): I note again that there is a terrific drop in the government securities held in this investment fund. Is this a type of fund which you do not have to trade in ordinarily? Are we going to be able to hang on to those securities, and will we come out all right, or are we going to have to absorb a loss?

Mr. WILSON: I think that normally a fund of this kind is set up so that the income covers a normal loss. But naturally, if you had something unusual, you would have an emergency and you might have to do something different.

Mr. HAMILTON (*York West*): This is an insurance investment fund; this is a self insured scheme on the ships themselves. Is that the purpose of this investment fund?

Mr. WILSON: Yes, it is on the ships.

Mr. HAMILTON (*York West*): If we did lose a ship and had to part with this fund to replace it, we would be out this amount of $276,000?

Hon. Mr. MARLER: That is assuming that you must liquidate the bonds to replace the ship.

Mr. GORDON: You could borrow against the securities and hold them as securities for the loan.

Mr. HAMILTON (*York West*): I see. You could borrow against it and pay whatever the going rate of interest might be?

Mr. GORDON: We might. It would depend on what the market situation was at the time.

The CHAIRMAN: Is page 9 agreed to?

Mr. HAMILTON (*York West*): Under capital assets, are these rates of depreciation 5 and 3, the usual rates for this type of ship?

Mr. WILSON: Yes.

Mr. HAMILTON (*York West*): Have you checked them in connection with other companies?

Mr. WILSON: We have checked them in relation to this company.

Mr. HAMILTON (*York West*): On what? On its operational record, the number of years of life expected with the ships?

Mr. WILSON: It is a rate that has been established by the company, as appropriate for its ships.

Page 9 agreed to.

Now page 10, "Income statement"?

INCOME STATEMENT

The operations for 1956 resulted in a profit of approximately $23,000 as compared with a loss of almost $96,000 for 1955. A divided equivalent to the profit for the year has been declared payable to the Government of Canada.

The following summary is provided for the purpose of reconciling expenditures with funds available.

Net Working Capital at 31st December, 1955		$521,000
Additional funds provided:		
Surplus for the year	$ 23,000	
Add: Provision for depreciation, which does not involve the outlay of funds	276,000	
	$299,000	
Increase in "Other Liabilites and Deferred Credits" and decrease in "Other Assets"	92,000	
		391,000
		$912,000
Funds Applied:		
Dividend to Government of Canada	$ 23,000	
Reduction in Government of Canada Loan	250,000	
Capital expenditures	72,000	
		345,000
Net Working Capital at 31st December, 1956		$567,000

GENERAL

Consistent with its established practice the Corporation has not made transfers or allocations of funds for pensions conditionally accruing in respect of employees now in service.

Where applicable, foreign currencies have been converted at the following rates:

United States currency—at dollar par of exchange.

Other foreign currencies—at prevailing rates of exchange.

We wish to express our appreciation of the excellent co-operation and assistance received from officers and employees of the Corporation during our audit.

Yours faithfully,

GEORGE A. TOUCHE & CO.

Mr. HAMILTON (*York West*): With respect to page 10, is this the usual method of repaying loans? I take it that is the reason for the almost complete depreciation, and then going out to borrow for replacements if necessary. Is that the usual method of handling a depreciation reserve?

Mr. WILSON: You might say that it was usual for this company.

Mr. HAMILTON (*York West*): Is this company operated differently from any other company?

Hon. Mr. MARLER: We cannot overlook the fact that it is an agency of the crown.

Mr. WILSON: I might say that it is appropriate to this company.

Mr. HAMILTON (*York West*): You say that it is easier for the company to obtain a loan if anything should happen in order to replace something. We could sell this if it should disappear from usage, or age?

Mr. WILSON: I think that is right. The important thing in any financing is to know that you can get the money you need when you need it.

Mr. HAHN: I understood earlier that a suggestion was made in respect to the Canadian National (West Indies) Steamships Limited and that one of the reasons we lacked traffic from south to north was because of the soft currency condition. I wonder if our dollar value being at a premium would have an effect on it. I know that the United States currency is at dollar par exchange. Do you feel that it has an unfortunate effect on the trade result? I suppose it is a matter of opinion.

Mr. GORDON: It is a matter of the general effect of the Canadian dollar being at a premium over the American dollar and how does it effect our trade? Naturally it means that it costs less in Canadian dollars to buy and import, and it encourages import trade.

Mr. HAHN: You think that it encourages imports. I would say that you had to pay more for it. It is a matter of opinion.

Hon Mr. MARLER: One of the things I found which encouraged imports from Canada was the taste of Canadian apples.

Mr. HAHN: I agree with you wholeheartedly!

Hon. Mr. Marler: But these apples came from Quebec. I am quite sure of that!

The CHAIRMAN: Shall "Income statement" and the general items on page 10 carry?

Agreed to.

In the auditors' report of the Canadian National (West Indies) Steamships Limited agreed to?

It is moved by Mr. Fulton and seconded by Mr. Hamilton that the auditors' report of the Canadian National (West Indies) Steamships Limited be carried.

Carried.

Then we have four items in the estimates.

Mr. FULTON: Shall we take them up now?

The CHAIRMAN: I think we should clean them up now. They are Canadian National items and probably we should deal with them now. The first item is vote 454, Prince Edward Island car ferry and terminals. There is an increase here of $285,000.

Mr. HAMILTON (*York West*): That was for an improvement on one boat alone, was it not?

The CHAIRMAN: I think so.

Mr. HAMILTON (*York West*): I think we had information on that before. Is that not an additional item to cover the work in progress?

Hon. Mr. MARLER: No, this is just the difference between the estimated loss of this year and the estimated loss of the operating results of last year.

Mr. HAMILTON (*York West*): The difference between the estimate for 1957 and the estimate for 1956.

The CHAIRMAN: Agreed to.

Now vote 455, Newfoundland ferry and terminals.

Mr. HAMILTON (*York West*): What is that one for?

The CHAIRMAN: The vote is for $1,188,080 as a deficit. Are there any questions?

Agreed to.

Vote 465, Maritime Freight Rates Act.

This is an increase of $1,675,000.

Hon Mr. MARLER: This is just the amount required to meet the payments at the rate of 20 per cent.

The CHAIRMAN: Agreed to.

Last of all, vote 466, Payment to Canadian National (West Indies) Steamships Limited.

Hon. Mr. MARLER: This is the vote about which I spoke a moment ago.

The CHAIRMAN: It shows a decrease of $10,000.

Mr. FULTON: What do we report?

Hon. Mr. MARLER: I do not care what the committee reports on it.

Mr. FULTON: Then let the committee move to strike it out.

Hon. Mr. MARLER: I have no objection to seeing it in the report.

Mr. FULTON: Do you want to eliminate it here?

Hon. Mr. MARLER: I think it would be more convenient to eliminate it in the house.

The CHAIRMAN: The committee could report and recommend that it be withdrawn.

Agreed.

Now I must express our thanks to Mr. Gordon for the report of the Canadian National Railways and the Canadian National (West Indies) Steamships Limited, and to Mr. Sauve, the general manager of Canadian National (West Indies) Steamships Limited who has been here for the presentation of his report with regard to that system.

There being no further business until we deal with T.C.A., we shall now adjourn until Thursday morning at 10 o'clock.

APPENDIX

(Ordered to be printed by Committee Resolution of March 26, 1957)

CANADIAN BROTHERHOOD OF RAILWAY EMPLOYEES AND OTHER TRANSPORT WORKERS
NATIONAL OFFICE

230 Laurier Ave. W.,
Ottawa 4, Canada,
MARCH 25TH, 1957.

Mr. H. P. Cavers, M. P. (Lincoln),
Chairman,
Sessional Committee on Railways and Shipping,
P.O. Box 95,
House of Commons,
OTTAWA, Ontario.

Dear Sir:

In reference to our telephone discussion regarding the representations made to you and members of the Sessional Committee on Railways and Shipping by representatives of our Brotherhood with respect to the action of the C.N.R. Management in discontinuing the privilege enjoyed by certain clerical employees whereby they were paid their wages while absent on account of sickness with a maximum of ten days per year.

The membership of our Brotherhood would very much appreciate an opportunity being afforded to the Officers of the Brotherhood to appear before your Committee so that they may explain the events that have occurred which made them feel that they have been unjustly discriminated aaginst by the decision of the C.N.R. Management. However, as there was some doubt as to whether your Committee could or would afford such a hearing, I personally have met with the Honourable Milton F. Gregg, Minister of Labour, who in turn has arranged for an interview for me with the Honourable George C. Marler, Minister of Transport, for Wednesday, March 27th.

Mr. Gregg has expressed surprise at the action of the C.N.R. Management and is giivng every consideration as to how this wrong can be corrected. Not having, as yet, met with Mr. Marler I am unable to interpret his reaction.

The reason for our request for a hearing with your Committee is for the purpose of having your Committee recommend to the Minister of Transport that he give most earnest and serious consideration to my representations on this matter with a view to using the influence of his office towards correcting the condition complained of. Should your Committee agree to do this without a hearing, it would be very much appreciated.

So that your Committee may be fully aware of the conditions complained of, I am enclosing two copies of my letter to Mr. Donald Gordon, President of the Canadian National Railways, which is self-explanatory.

Yours very truly,

(*sgd.*) Wm. J. SMITH
National President.

CANADIAN BROTHERHOOD OF RAILWAY EMPLOYEES AND OTHER TRANSPORT WORKERS

OTTAWA, February 4th, 1957

Mr. Donald Gordon,
Chairman and President,
Canadian National Railways,
MONTREAL, Quebec.

Dear Mr. Gordon:

I have your letter of January 15th, relative to our discussion regarding the decision of management to discontinue, effective January 1st, the privilege that certain monthly-rated employees enjoyed, i.e., payment of wages for time lost on account of illness with a maximum of ten days per year.

It is needless for me to say, I was keenly disappointed in the conclusion you reached. I have given a great deal of consideration to this subject, particularly since our discussion, and receipt of your letter. As a result, I feel the circumstances are such that I am obliged to request your further consideration. and an opportunity to discuss same with you at your earliest convenience.

To enable us to understand what is involved in this problem, and what has given rise to same, I am setting forth my views and the facts as I understand them as follows:

1. Certain monthly-rated employees represented by the Brotherhood have for about thirty years enjoyed the benefit of a company policy, whereby, they were paid their wages for a maximum of ten days each year while absent from duty on account of illness.

2. This benefit was available to the employee only when no additional payroll expense was involved.

3. The same benefit and policy applied to those employees who were not represented by a union and covered by a collective agreement .

4. Effective January 1st, 1957, the benefit and policy has been discontinued for those represented by a union and collective agreement.

5. Effective January 1st, 1957, the benefit and policy has been extended from that of a privilege to that of a right for those who are not represented by a union and collective agreement.

6. The same class of employee is involved in both instances, i.e., monthly-rated clerical employees.

7. Cost is not a factor as the benefit and policy only applied when there was not additional payroll expense involved. The employee caught up with his work when he returned, or other employees assisted in keeping his work up to date by working extra hours at no additional remuneration.

8. Equality of treatment to both union and non-union employees in this particular aspect of their working conditions was the guiding principle.

9. The introduction of the Health and Welfare Plan created no necessity for changing the benefits to employees which they enjoyed by virtue of company policy.

10. No logical explanation has been given for the change in policy of the Company, which in effect creates inequality in treatment in place of equality of treatment other than the need for uniformity of practices instead of varying practices. I have never had occasion to be aware of any variation which caused dissatisfaction on the part of the employees.

11. Uniformity of practices is desirable, but the decision of management does not establish uniformity, rather the contrary.

12. This decision is the third in a series of decisions which have created serious disparities in wages and working conditions between the same class of employees, which are represented by a union, and those not represented by a union. I refer to—

(a) the $2.71 a month the non-union employees were allowed to retain when the 40-hour week came into effect, while the union employee had it deducted.

(b) The non-union was granted a 12% increase in wages after the union had accepted 11%.

(c) Extension of the sick-time allowance privilege to non-union employees. Discontinuance of the privilege to union employees.

Your earnest and serious consideration of these facts and views, and an opportunity to further discuss same with you at an early date, will be very much appreciated.

Yours sincerely,

(*sgd.*) Wm. J. SMITH
National President,
Canadian Brotherhood of Railway
Employees and other Transport Workers.

HOUSE OF COMMONS

Fifth Session—Twenty-second Parliament

1957

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

Chairman: HARRY P. CAVERS, Esq.

MINUTES AND PROCEEDINGS AND EVIDENCE

No. 2

including

REPORTS TO THE HOUSE

THURSDAY, MARCH 21, 1957

MONDAY, MARCH 25, 1957

TUESDAY, MARCH 26, 1957

Trans-Canada Air Lines 1956 Annual Report and 1957 Budget; Auditors' 1956 Report to Parliament on Trans-Canada Air Lines.

WITNESSES:

Mr. G. R. McGregor, Mr. W. S. Harvey, Mr. H. W. Seagrim, Mr. S. W. Sadler, Mr. R. C. MacInnes, Mr. J. A. Wilson, and Mr. J. W. Beech.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1957.

88171—1

SESSIONAL COMMITTEE

on

RAILWAYS AND SHIPPING

owned, operated and controlled by the Government

Chairman: H. P. Cavers, Esq.

and Messrs.

Balcer(2)
Bell(2)
Byrne
Carter
Cavers
Follwell
Fulton
Gauthier (*Lac-Saint-Jean*)
Gillis(3)
Hahn
Hamilton (*Notre-Dame-de-Grâce*)
Hamilton (*York West*)
Hanna
Harrison
Howe (*Wellington-Huron*)(1)
James
Johnston (*Bow River*)
Knight
Knowles (3) (4)
Lavigne
Legare
McCulloch (*Pictou*) (*Vice-Chairman*)
Mitchell (*Sudbury*)
Murphy (*Westmorland*)
Nowlan (1)
Power (*Quebec South*)
Richardson
St. Laurent (*Temiscouata*)
Weaver

Clerk of the Committee: A. Small

(1) Mr. W. M. Howe replaced Mr. Nowlan on March 13, 1957.
(2) Mr. Balcer replaced Mr. Bell on March 14, 1957.
(3) Mr. Knowles replaced Mr. Gillis on March 18, 1957.
(4) Mr. Stewart replaced Mr. Knowles on March 20, 1957.

ORDERS OF REFERENCE

HOUSE OF COMMONS,
TUESDAY, March 12, 1957.

Resolved,—That a Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, be appointed to consider the accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines, saving always the powers of the Committee of Supply in relation to the voting of public moneys; and that the said Committee be empowered to send for persons, papers and records and to report from time to time and that, notwithstanding Standing Order 67 in relation to the limitation of the number of members, the said Committee to consist of Messrs. Bell, Byrne, Carter, Cavers, Follwell, Fulton, Gauthier (*Lac-Saint-Jean*), Gillis, Hahn, Hamilton (*Notre-Dame-de-Grâce*), Hamilton (*York West*), Hanna, Harrison, James Johnston (*Bow River*), Knight, Lavigne, Legare, McCulloch (*Pictou*), Mitchell (*Sudbury*), Murphy (*Westmorland*), Nowlan, Power (*Quebec South*), Richardson, St. Laurent (Temiscouata), and Weaver.

WEDNESDAY, March 13, 1957.

Ordered,—That the name of Mr. Howe (*Wellington Huron*) be substituted for that of Mr. Nowlan on the said Committee.

WEDNESDAY, March 13, 1957.

Ordered,—That the Annual Reports for 1956 of the Canadian National Railways, Canadian National (West Indies) Steamships Limited and the Canadian National Railways Securities Trust, the Auditors' Report to Parliament in respect of Canadian National Railways and Canadian National (West Indies) Steamships Limited, and the Budgets for 1957 of Canadian National Railways and Canadian National (West Indies) Steamships Limited, tabled this day, be referred to the said Committee, together with the following items of Estimates for 1957-58:

Vote 454—Prince Edward Island Car Ferry and Terminals deficit, 1957;

Vote 455—Newfoundland Ferry and Terminals deficit, 1957;

Vote 465—Maritime Freight Rates Act;

Vote 466—Canadian National (West Indies) Steamships Limited;

and that the resolution passed by the House on January 23, 1957 referring certain Estimates to the Committee of Supply be rescinded so far as the said resolution related to Votes 454, 455, 465 and 466.

WEDNESDAY, March 13, 1957.

Ordered,—That the Annual Report of the Trans-Canada Air Lines for 1956, the Auditors' Annual Report to Parliament of Trans-Canada Air Lines for the year ending December 31, 1956, tabled this day, and the Capital Budget of Trans-Canada Air Lines for the year ending December 31, 1956, tabled on Friday, February 15, 1957, be referred to the said Committee.

THURSDAY, March 14, 1957.

Ordered,—That the name of Mr. Balcer be substituted for that of Mr. Bell on the said Committee.

MONDAY, March 18, 1957.

Ordered,—That said Committee be empowered to print from day to day 1,000 copies in English and 250 copies in French of its Minutes of Proceedings and Evidence and that Standing Order 66 be suspended in relation thereto.

Ordered,—That the said Committee be authorized to sit while the House is sitting.

Ordered,—That the quorum of the said Committee be set at ten members.

MONDAY, March 18, 1957.

Ordered,—That the name of Mr. Knowles be substituted for that of Mr. Gillis on the said Committee.

WEDNESDAY, March 20, 1957.

Ordered,—That the name of Mr. Stewart (*Winnipeg North*) be substituted for that of Mr. Knowles on the said Committee.
Attest.

LEON J. RAYMOND,
Clerk of the House.

REPORTS OF THE HOUSE

MONDAY, March 18, 1957.

The Sessional Committee on Railway and Shipping owned, operated and controlled by the Government, begs leave to present the following as its

FIRST REPORT

Your Committee recommends:

1. That its quorum be set at ten members.

2. That it be authorized to sit while the House is sitting.

3. That it be empowered to print from day to day 1,000 copies in English and 250 copies in French of its Minutes of Proceedings and Evidence and that Standing Order 66 be suspended in relation thereto.

Respectfully submitted.

HARRY P. CAVERS,
Chairman.

WEDNESDAY, March 27, 1957.

The Sessional Committee on Railway and Shipping owned, operated and controlled by the Government begs leave to present the following as its

SECOND REPORT

Your Committee has considered the following items of the Estimates for the fiscal year ending March 31, 1958, referred to it on March 13, 1957:

Vote 454—Prince Edward Island Car Ferry and Terminals deficit, 1957;

Vote 455—Newfoundland Ferry and Terminals deficit, 1957;

Vote 465—Maritime Freight Rates Act; and

Vote 466—Canadian National (West Indies) Steamships Limited.

Your Committee recommends approval of Votes 454, 455 and 465. In respect of Vote 466, your Committee has ascertained form its study of the 1957 Capital Budget of Canadian National (West Indies) Steamships, Limited, that this item will not be required and, accordingly, recommends that it be withdrawn.

Respectfully submitted.

HARRY P. CAVERS,
Chairman.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as its

THIRD REPORT

Pursuant to the Orders of Reference of the House of Commons of March 12th and 13th, this Committee had before it for consideration the following:

1. The Annual Reports of Canadian National Railways, the Canadian National (West Indies) Steamships, Limited, for 1956, and the Auditors' Reports to Parliament in respect thereto.

2. The Annual Report of the Canadian National Railways Securities Trust for 1956.

3. The Annual Report of the Trans-Canada Air Lines for the calendar year 1956 and the Auditors' Report to Parliament in relation thereto.

4. The Capital Budgets of the Canadian National Railways, the Canadian National (West Indies) Steamships, Limited, both for the year 1957, and the Operating Budget and the Capital Budget for Trans-Canada Air Lines for the calendar year 1957.

Your Committee held eight meetings during which meetings the officials of C.N.R. and T.C.A. and the auditors were heard and the reports, budgets and certain matters relating thereto were considered and evidence adduced thereon.

Your Committee was gratified to note surpluses for each of the transportation systems which submitted reports to it. The Canadian National Railways report revealed a surplus of $26,076,951.00 which indicated a greatly improved financial position over last year. The average net income for the past five-year period works out to approximately $1.7 million a year. Freight revenue rose to an all-time high of $612.8 million, up $72.6 million from the results of 1955.

Your Committee noted the continued progress of the dieselization programme. This approach, with emphasis on the application of diesel-electric power to specific runs and services, should offer a greater return on investment. The said Annual Report was adopted.

The Annual Report of Canadian National (West Indies) Steamships, Limited, for 1956 indicated a net operating surplus of $23,281. This compares most favorably with a deficit of $95,964 in 1955 and represents a net improvement of $119,245. The operating revenues showed an increase from $5,946,605 in 1955 to $6,125,470 while operating expenses increased from $5,995,684 in 1955 to $6,052,570 in 1956. South-bound tonnage was up 2% in 1956 largely because of increased flour shipments to Jamaica. North-bound traffic declined by 14% in 1956 due entirely to a decrease of 12.5% in sugar traffic. The said Annual Report was adopted.

The Annual Report of Trans-Canada Air Lines for 1956 showed a net surplus of $1,556,212. This was the sixth successive year in which a surplus had been recorded. The improvement over the previous year's results was attributable to increased traffic throughout the system, a slight increase in the proportion of capacity sold and to improved productivity of personnel and aircraft. Air transportation in Canada felt the effect of a strong national economy. The Committee noted that the delivery of additional Viscounts permitted an extension of service for these extremely popular aircraft. An aggressive sales policy has been maintained and, for the first time, this year over two million passengers were carried in a single year. The said Annual Report was adopted.

The Auditors' Report to Parliament with respect to Canadian National Railways, the Canadian National (West Indies) Steamships, Limited, and the Trans-Canada Air Lines, as well as the Report of the Canadian National Securities Trust, for the calendar year 1956 were severally considered and adopted.

The Financial Budgets of the Canadian National Railways System, the Canadian National (West Indies) Steamships, Limited, and Trans-Canada Air Lines for the calendar year 1957 were examined and adopted.

The Committee also considered Votes 454, 455, 465 and 466 of the Estimates for the fiscal year ending March 31, 1958. In its Second Report, your Committee recommended approval of Votes 454, 455 and 465 and that Vote 466 be withdrawn.

Your Committee was assisted in its deliberations by the evidence which was presented by Mr. Donald Gordon, C.M.G., LL.D.; Mr. S. F. Dingle; Mr. R. D. Armstrong; Mr. J. A. Sauve; Mr. G. R. McGregor; Mr. W. S. Harvey; Mr. J. A. Wilson, and Mr. J. W. Beech which was readily delivered by these gentlemen in a most efficient and straight-forward way.

A copy of the Minutes of the Proceedings and Evidence adduced in respect of the matters referred to is appended hereto.

Respectfully submitted,

HARRY P. CAVERS,
Chairman.

Thursday, March 21, 1957.

MORNING SITTING

The sessional Committee on Railways and Shipping owned, operated and controlled by the Government met at 10.00 a.m. The Vice-Chairman, Mr. H. B. McCulloch, presided due to the unavoidable absence of the Chairman, Mr. Harry P. Cavers.

Members present: Messrs. Byrne, Carter, Follwell, Fulton, Hahn, Hamilton (*Notre-Dame-de-Grâce*), Hamilton (*York West*), Howe (*Wellington-Huron*), Johnston (*Bow River*), Knight, Lavigne, Legare, McCulloch (*Pictou*), Mitchell (*Sudbury*), *Murphy* (*Westmorland*), St. Laurent (*Temiscouata*), Stewart (*Winnipeg North*), and Weaver.—(18).

In attendance: Mr. G. R. McGregor, President, Trans-Canada Air Lines, assisted by Mr. W. S. Harvey, Comptroller, Mr. H. W. Seagrim, Vice-President of operation, Mr. S. W. Sadler, Assistant Comptroller, and Mr. R. C. MacInnes, Director of Public Relations. Mr. J. H. Dickey, Parliamentary Assistant to the Minister of Defence Production, was also in attendance.

The Committee proceeded to consideration of the 1956 Annual Report of Trans-Canada Air Lines. Mr. McGregor read the said Report and was being questioned thereon.

At 11.20 a.m., the Vice-Chairman adjourned the proceedings until 3.15 p.m., as agreed, to allow the Committee to make an aerial inspection of the St. Lawrence Seaway Project on board a T.C.A. Viscount.

Thursday, March 21, 1957.

AFTERNOON SITTING

The sessional Committee on Railways and Shipping owned, operated and controlled by the Government met at 3.15 p.m. The Chairman, Mr. Harry P. Cavers, presided.

Members present: Messrs. Byrne, Carter, Cavers, Follwell, Fulton, Hahn, Hamilton (*Notre-Dame-de-Grâce*), Hamilton (*York West*), Harrison, Howe (*Wellington-Huron*), Johnston (*Bow River*), Stewart (*Winnipeg North*), and Weaver.—(19),

In attendance: The Right Honourable C. D. Howe, Minister of Trade and Commerce and Minister of Defence Production; Mr. G. R. McGregor, President, Trans-Canada Air Lines, assisted by Mr. W. S. Harvey, Comptroller, Mr. H. W. Seagrim, Vice-President of Operations, Mr. S. W. Sadler, Assistant Comptroller, and Mr. R. C. MacInnes, Director of Public Relations; and Mr. J. A. Wilson and Mr. J. W. Beech of the firm of George A. Touche & Co., Chartered Accountants. The Honourable George C. Marler, Minister of Transport, was also in attendance.

The Committee resumed and completed its questioning of Mr. McGregor on the 1956 Annual Report of Trans-Canada Air Lines. It was suggested to T.C.A. that consideration be given for future Annual Reports that the Statement of Income be supplemented by a statement showing overall expenditures for a particular item in addition to the present method of showing totals by functional departments.

On motion of Mr. Weaver, seconded by Mr. Fulton, the said Report was adopted.

The Committee proceeded to consideration of the 1957 Capital Budget of Trans-Canada Air Lines which was taken as read. Mr. McGregor was questioned thereon.

On motion of Mr. Weaver, seconded by Mr. Hamilton (*York West*), the said Budget was adopted.

The Committee proceeded to consideration of the 1956 Auditors' Report to Parliament of the Accounts of Trans-Canada Air Lines which was taken as read. Messrs. Wilson and Beech were questioned thereon.

On motion of Mr. Johnston (*Bow River*), seconded by Mr. Hahn, the said Report was adopted.

The witnesses were thanked for their presentations and retired.

At 6.00 p.m., the Committee adjourned to meet again at 11.00 a.m., Monday, March 25, 1957, to consider its Reports to the House.

MONDAY, March 25, 1957.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met *in camera* at 11.00 a.m. The Chairman, Mr. Harry P. Cavers, presided.

Members present: Messrs. Byrne, Carter, Cavers, Gauthier (*Lac St-Jean*), Hahn, Harrison, Knight, Légaré, McCulloch (*Pictou*), Mitchell (*Sudbury*), Murphy (*Westmorland*), Richardson, Stewart (*Winnipeg North*), and Weaver. —(14).

The Chairman presented a draft of the Committee's Second Report to the House. The said report was considered and, on motion of Mr. Richardson, seconded by Mr. Carter, approved for presentation to the House.

The Chairman also presented a draft of the Committee's Third Report to the House. The said report was considered and revised.

During its consideration, the Committee discussed certain representations being made to the Chairman and other Members of Parliament by the Canadian Brotherhood of Railway Employees and Other Transport Workers regarding the C.N. Health and Welfare Plan and evidence given thereon to the Committee. The Chairman stated that the question related to the 1956 Annual Report of the Canadian National Railways which had already been considered and adopted by the Committee.

It was subsequently agreed that final adoption of the Committee's Third Report be deferred until tomorrow when the Chairman would present to the Committee a letter from the National President of the Brotherhood.

At 11.45 a.m., the Committee adjourned to meet again at 3.00 p.m., Tuesday, March 26, 1957.

TUESDAY, March 26, 1957.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met *in camera* at 3.30 p.m. The Chairman, Mr. Harry P. Cavers, presided.

Members present: Messrs. Carter, Cavers, Follwell, Fulton, Hahn, Johnston (*Bow River*), Knight, Légaré, Mitchell (*Sudbury*), Murphy (*Westmorland*), and Stewart (*Winnipeg North*).—(11).

The Committee resumed consideration of its Third Report to the House as revised at yesterday's meeting.

The Chairman read a letter dated March 25, 1957, from the National President of the Canadian Brotherhood of Railway Employees and Other Transport Workers. The said letter, on motion of Mr. Fulton and seconded by Mr. Murphy (*Westmorland*), was ordered to be printed as an appendix to the proceedings to which it relates (*See Appendix* to *Minutes of Proceedings and Evidence*, No. 1).

On motion of Mr. Johnston (*Bow River*), seconded by Mr. Légaré, the Committee's Third Report to the House was adopted.

Mr. Johnston (*Bow River*) raised the question of deferring presentation of the Committee's Reports to the House until its printed proceedings were available. The Chairman stated (1) that the original transcript of evidence for the first issue was still in the hands of the witnesses (2) that to do as suggested might mean the Session would be over before the Committee had reported and (3) that a copy of the transcript of evidence would be appended to the reports when presented to the House. As a consequence, it was unanimously—

Agreed,—That, in future, witnesses before this Committee be allowed not later than the day following their hearing to complete their editing of the transcript of evidence.

Ordered,—That the Chairman present forthwith the Committee's Second and Third Reports to the House.

At 4.00 p.m., the Committee adjourned to the call of the Chair.

A. Small
Clerk of the Committee

EVIDENCE

THURSDAY, March 21, 1957,
10.00 a.m.

The ACTING CHAIRMAN (*Mr. McCulloch, Pictou*): The chairman has asked me to fill his place until he is able to be here at 3.15, and I would ask the president of T.C.A., Mr. McGregor, to introduce the report of his company.

Mr. G. R. McGREGOR (*President, Trans-Canada Air Lines*): Thank you, Mr. Chairman. T.C.A. is represented by myself and Mr. W. S. Harvey, Comptroller, Mr. H. W. Seagrim, Vice-President, Operations, Mr. S. W. Sadler, Assistant Comptroller and Mr. R. C. MacInnes, Director of Public Relations.

The ACTING CHAIRMAN: Would you like to make a few explanatory remarks, Mr. McGregor?

Mr. McGREGOR: Yes, if I may, Mr. Chairman. The proposal is that if the chairman can make the required time available, the T.C.A. would be delighted to have the members of the committee and those others who are available, to accompany us on a flight in which we hope the weather will be satisfactory, so that we may look at some of the work on the international section of the seaway. If, sir, it will be possible to break off in time to gather at the front door of the centre block at 11.30, a bus will be there to take us to the airport. There will be a Viscount at the airport and we propose to have lunch on the aircraft during the flight. The understanding is that we would have you back at the front door of the centre block at twenty minutes past two. Thank you.

The ACTING CHAIRMAN: The first item is the annual report.

Mr. McGREGOR: Shall I read it to you, sir?

The ACTING CHAIRMAN: Yes, if you would, please.

Mr. McGREGOR: The report which is dated February 28 and is addressed to the Right Honourable Minister of Trade and Commerce, begins with the financial section on page 5, and is as follows:

THE YEAR IN BRIEF

	1956	*1955*	*% Change*
Revenues	$91,306,046	$77,428,254	+18%
Net Income	1,556,212	190,095	
Seat Miles Made Available (000's)	1,631,238	1,380,919	+18%
Seat Miles Occupied (000's)	1,191,784	969,392	+23%
Ton Miles Made Available (000's)	235,934	202,177	+17%
Ton Miles Used (000's)	141,778	116,706	+21%
Average Return per Passenger Mile	6.27c	6.34c	−1%
Average Return per Revenue Ton Mile	63.74c	64.91c	−2%

FINANCIAL REVIEW

Operating results for 1956 compared with those of 1955 are as follows:

	1956	*1955*	*Increase*
Income from Operations	$9,080,506	$4,965,799	$4,114,707
Provision for Depreciation	6,971,575	4,308,467	2,663,108
	$2,108,931	$ 657,332	$1,451,599
Non-Operating Income—Net ...	734,333	528,366	205,967
Income before Interest Expense	$2,843,264	$1,185,698	$1,657,566
Interest on Capital Invested	1,287,052	995,603	291,449
Net Income	$1,556,212	$ 190,095	$1,366,117

(Page 4 of T.C.A. Report)

MONTREAL, February 28, 1957.

To the Right Honourable,
The Minister of Trade and Commerce, Ottawa.

Sir:

The Board of Directors submit the Annual Report of the Trans-Canada Air Lines system for the calendar year 1956.

Financial

TCA operations in 1956 resulted in a net income of $1,556,212. This was the sixth successive year in which a surplus was recorded. The improvement over the previous year's results is attributable to increased traffic throughout the system, a slight increase in the proportion of capacity sold, and to improved productivity of personnel and aircraft. These factors were partly offset by higher maintenance material expense and depreciation charges.

Revenues advanced 18% over 1955. Passenger revenues increased by 22% and constituted four-fifths of the total. Satisfactory growth was also achieved in revenues from mail (7%), air express (7%) and air freight (13%).

The increase in total revenues was achieved in spite of a decline in the revenue yield per ton mile amounting to 2%. This "average price" realized by the airline was lowered by the growing impact of tourist fares and by declining mail rates.

Although operating expenses rose by 16%, improved productivity had a salutary effect. An average over the year of 4½% more employees helped to produce 17% more saleable capacity. The increasing influence of modern aircraft, well utilized, was also a factor.

(Page 5 of T.C.A. Report)

The Company's payroll totalled $38,328,000 and this represented 43% of operating expenses.

Capital expenditures, consisting largely of final payments on four Viscounts and two Super Constellation aircraft, amounted to $11,414,000 during 1956.

Balance of payment on the purchase of flight equipment under contracts in force, as at December 31, 1956, was $38,800,000.

Interest expense amounted to $1,287,000. This represented an average interest rate of 3½% on the $20,000,000 debentures and the shorter term financing.

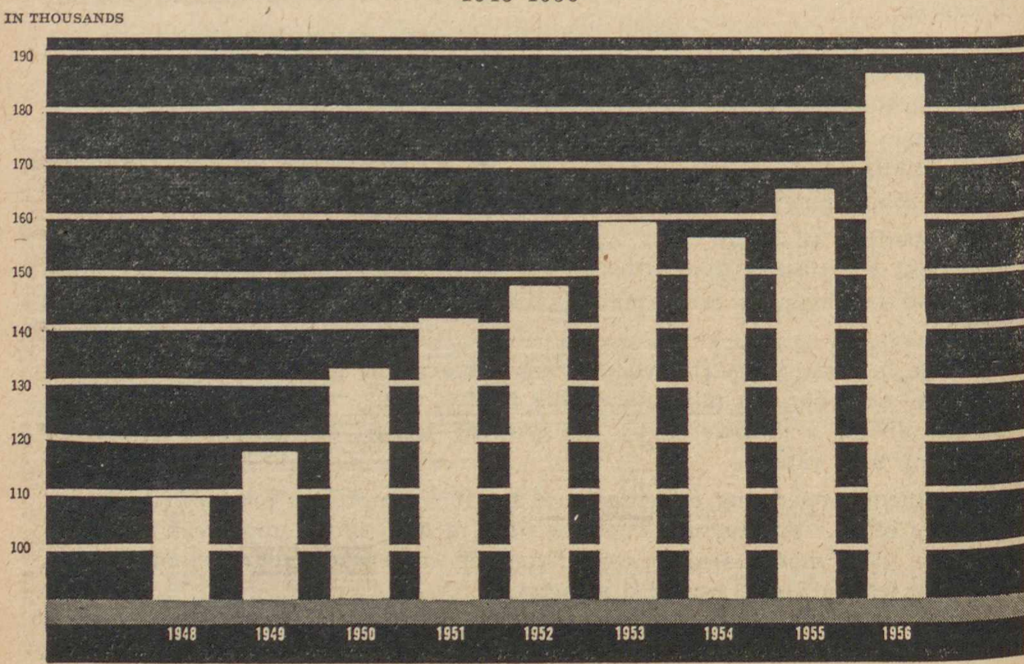
Service and Traffic Growth

Canadian air transportation felt the stimulus of a strong national economy, and, at the same time, continued to win a progressively larger share of the total transportation market. To keep pace with the nation's requirements, TCA made available the greatest number of seat miles and ton miles in its history. Increased flight frequency and carrying capacity were provided on many routes, both domestic and international.

The delivery of additional Viscounts permited an extension of service with these extremely popular aircraft, including their complete substitution for North Stars on first-class trans-continental operations. More Super Constellation equipment made possible a second daily trans-continental "express" service between eastern and western Canada. During the months of heaviest traffic, six trans-continental flights were scheduled daily, two of them tourist class. A seventh flight operated daily between eastern Canada and Alberta cities, using Viscounts. North Atlantic service frequency rose

(Page 6 of T.C.A. Report)

AVERAGE AVAILABLE SEAT MILES PRODUCED PER EMPLOYEE
1948-1956



to ten flights a week in the summer. There was an overall increase in operations conducted with four-engine aircraft, and 88% of the seat miles produced were with such equipment.

The Company maintained an aggressive sales policy and, for the first time, over two million passengers were carried in a single year. More than a billion passenger miles were flown.

The year was, however, marred on December 9th by the tragic disappearance of a North Star in the mountains of British Columbia with 59 passengers and a crew of three. The circumstances of the accident are shrouded in uncertainty and until the aircraft is found there can only be conjecture as to the cause. The deepest sympathy of the Company is extended to the families and the friends of those involved.

(Page 7 of T.C.A. Report)

At year end TCA was operating on 25,187 route miles and serving more than sixty communities in Canada, the United States, the British Isles, France, Germany, Bermuda and the Caribbean. The airline's operations included several routes of uneconomic traffic potential, in keeping with TCA's responsibility to provide a truly national service. The illustration on pages 14 and 15 presents a comprehensive picture of the airline's route pattern.

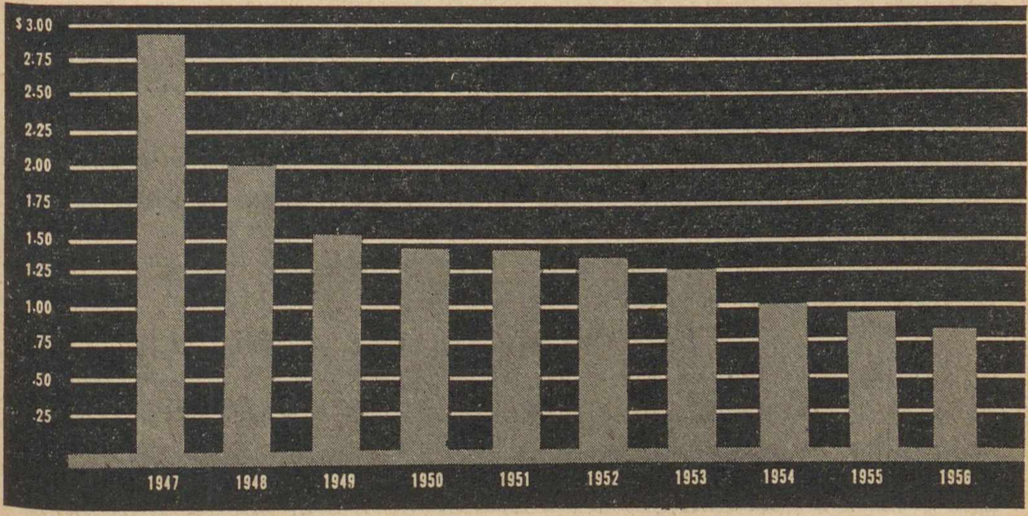
New excursion fares and low cost immigrant fares were introduced on the North Atlantic service in conjunction with other IATA carriers. On domestic services there was no basic change in the fare structure.

(Page 8 of T.C.A. Report)

The Company was proud to participate in the work of relief at the time of the Hungarian crisis. Numerous refugees were brought to Canada on charter flights and on scheduled operations, and TCA carried to Europe, without charge, many tons of emergency supplies.

MAIL PAY PER MAIL TON MILE

1947-1956—North American Service



Air freight and air express traffic continued to increase in an encouraging manner, although volume remained well below the airline's carrying capacity. Four North Star cargoliners provided trans-continental service five nights weekly, as well as other all-cargo operations. The movement of air cargo, both within Canada and on the overseas services, remained strongly directional.

Mail traffic too, maintained the steady growth of recent years and TCA's constructive relationship with the Canadian Post Office Department continued to assure Canada a quality of mail service matched by few other countries. The all-up carriage of mail pioneered by the Canadian postal authorities has proved a model elsewhere in the world. With the further growth of mail volume the airline's unit mail payment continued the steady decline of recent years, as illustrated on page 8.

Equipment and Facilities

In 1956 TCA took delivery of two more Super Constellations and four additional Viscounts. Two DC-3s were sold as the first step in the gradual retirement of this type of equipment. At year end the fleet numbered 72 aircraft, consisting of 9 Super Constellations, 18 Viscounts, 21 North Stars and 24 DC-3s.

Additional North Stars were modified to provide increased seating accommodation for the tourist services. Another North Star was converted for all-cargo carriage.

The fleet continued to perform well, testifying to the skill of the Company's technical staff and to the quality of its maintenance and overhaul practices. 96% of all scheduled mileage was completed.

(Page 9 of T.C.A. Report)

Improvements were made to Company sales and reservations offices in a number of cities to accommodate the increased volume of traffic. A trans-continental long-line telephone circuit was leased for improved reservations service.

To meet the growing requirements of air transportation in Canada, the Department of Transport undertook many important projects of runway development and airport terminal building construction. TCA is keenly concerned with all such programmes and the airline maintains a close and co-operative relationship with the Department at all times.

Personnel

The most harmonious relations existed between the Company and its working staff.

(Page 10 of T.C.A. Report)

To ensure an adequate reservoir of skill and leadership qualities in its employees, the airline continued to conduct a comprehensive training programme through all departments. Particular emphasis was placed upon Management Development instruction to assist supervisory staff in the efficient discharge of their responsibilities.

The increased scope of the Company's operations and the greater traffic volume produced additional job opportunities in aviation, and at year end 8,932 persons were in the employ of TCA, an increase of 429 from the close of the previous year. The complexity of aviation requires a high degree of employee skill and experience. With these qualities the TCA working force as a whole is well endowed.

The Company regrets to record the death of Mr. E. W. Stull, Operations Manager, Western Region. Mr. Stull was one of the most senior and respected members of the airline.

Mr. W. F. English, Vice-President of Operations, retired from TCA service in September, having served the Company faithfully and well since its inception. Acknowledgment is made of his devotion to TCA and of the very great contribution he has made to Canadian aviation generally.

Planning

In 1957 TCA enters its twentieth year of service to Canada. As in the past it is the continuing endeavour of the airline to broaden the scope and improve the quality of service to the public.

(Page 11 of T.C.A. Report)

During the past year the Company moved further ahead in its planning for the new speeds, greater passenger comfort and increased economies of operation inherent in turbine powered aircraft. Orders were placed for four Douglas DC-8 full jet airliners for use on the Company's long-range routes. Of greater significance was a more recent order for twenty Vickers Vanguards, large propeller-turbine aircraft, that will see service in the Company's medium-range operations. These two equipment decisions mean that by 1961 TCA will become one of the first airlines in the world to possess an all-turbine powered fleet.

The DC-8s will be equipped with Rolls-Royce Conway turbo-jet engines of the by-pass type and will carry 120 passengers and three tons of cargo, at 550 miles an hour. They will fly the North Atlantic and trans-continental routes non-stop, cutting present scheduled times almost in half.

The Vanguards, powered by Rolls-Royce Tyne engines, will have a cruising speed in excess of 420 miles an hour and will carry 82 first class or 102 tourist class passengers. They will be approximately twice the size and more than 100 miles an hour faster than the Viscounts which, in their own right, are the finest aircraft in the world for short-range operations. The lower section of the Vanguard's fuselage will contain two pressurized cargo compartments, providing space for ten tons of freight, express and mail, and the aircraft can be used for cargo purposes when not being employed in passenger service.

It is expected that the DC-8s will enter TCA service in 1960 and the Vanguards in 1961. As the new equipment is delivered, there will be a gradual retirement of all the piston-engined aircraft now in the fleet.

Eleven additional Viscounts on order will be delivered in the spring of 1957 and nine more in the spring of 1958. Serving together with the Vanguards and the DC-8s, they will provide Canada with as efficient and modern a fleet as any in the world. In 1957, Viscounts will fly for the first time to London (Ontario), Quebec City, Moncton, Fredericton, Saint John, Halifax and Boston.

(Page 12 of T.C.A. Report)

Airborne radar will be installed on much of the Company's flight equipment, enabling pilots to detect adverse weather well ahead, and to increase the comfort and dependability of flying. The airline continues to investigate and apply to many aspects of its operations current developments in the field of electronics.

The very large financial outlay involved in the purchase of modern commercial aircraft, and the necessity of making commitments years in advance of delivery, require meticulous technical assessment and accurate long range planning. Steadily rising labour and material costs too are complicating factors. Nevertheless, the greater efficiency of the new equipment, the ever increasing popularity of air travel, and the steady growth of Canada's economic strength give good reason to view the future with confidence. There will be substantial development costs as the transition from piston to turbine powered aircraft is completed, but the general financial outlook for the Company is encouraging. It will continue to be TCA's aim to provide efficient air transportation, on the widest possible national basis and at the lowest possible cost to the consumer.

In concluding this Report, the Board of Directors wish to express their gratitude to the men and women of TCA whose loyalty and skilled performance have made possible another year of valuable Canadian transportation service. In its experienced and able staff, TCA has by far its greatest asset.

For the Directors,
G R. McGREGOR
PRESIDENT.

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BALANCE SHEET AS AT DECEMBER 31, 1956

ASSETS

Current Assets		
Cash		$ 2,178,822
Working funds		51,916
Special deposits		45,860
Accounts receivable		
Government of Canada	$ 1,701,324	
Tfaffic balances from other air lines	1,888,389	
Air travel plan	1,749,489	
Travel agents	743,411	
Other	1,793,453	
		7,876,066
Materials and supplies		9,289,621
Other current assets		203,240
		$19,645,525
Insurance Fund		6,000,000
Capital Assets		
Property and equipment	$77,431,673	
Less: Accumulated depreciation	37,056,034	
	$40,375,639	
Progress payments on purchase of aircraft*	3,536,993	
		43,912,632
		$69,558,157

*For the contingent liability at December 31, 1956, refer to page 6.

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LIABILITIES

Current Liabilities		
Accounts payable		$ 3,192,982
Traffic balances payable to other air lines		2,788,851
Air travel plan deposits		1,403,775
Salaries and wages		1,528,423
Prepaid transportation		2,473,657
Other current liabilities		509,519
		$11,897,207
Loans and Debenture—Canadian National Railways		
Notes payable	$20,000,000	
Debenture, 3⅞% maturing January 1st, 1973	20,000,000	
		40,000,000
Reserves		
Insurance	$ 6,000,000	
Overhaul	393,939	
		6,393,939
Capital Stock		
Common stock—authorized 250,000 shares par value $100 per share —issued and fully paid, 50,000 shares		5,000,000
Surplus		
Balance, January 1st, 1956	$ 4,710,799	
Net income, year 1956	1,556,212	
		6,267,01
		$69,558,157

signed W. S. HARVEY,
Comptroller.

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STATEMENT OF INCOME

	1956	1955
OPERATING REVENUES:		
Passenger	$74,478,516	$61,105,243
Mail	8,869,934	8,297,605
Air Express and Freight	6,010,397	5,436,802
Excess Baggage	758,998	579,108
Charter	253,011	334,057
Incidental Services—Net	935,190	1,675,439
Total	$91,306,046	$77,428,254
OPERATING EXPENSES		
Flight Operations	$19,426,736	$16,749,503
Ground Operations	14,365,174	12,807,609
Maintenance	24,858,039	21,656,662
Passenger Service	5,420,055	4,682,401
Sales and Reservation Service	11,535,295	10,191,730
Advertising and Publicity	2,010,898	2,186,660
General and Administrative	4,609,343	4,187,890
Total	$82,225,540	$72,462,455
INCOME FROM OPERATIONS	$ 9,080,506	$ 4,965,799
Provision for Depreciation	6,971,575	4,308,467
	$ 2,108,931	$ 657,332
NON-OPERATING INCOME—NET:		
Interest and Discounts	370,369	495,127
Sale of Aircraft	250,000	—
Miscellaneous	113,964	33,239
INCOME BEFORE INTEREST EXPENSE	$ 2,843,264	$ 1,185,698
Interest on Capital Invested	1,287,052	995,603
NET INCOME	$ 1,556,212	$ 190,095

NOTE: Consistent with the provisions of the Income Tax Act, the Airline intends to claim capital cost allowance (depreciation) sufficient to offset the taxable income.

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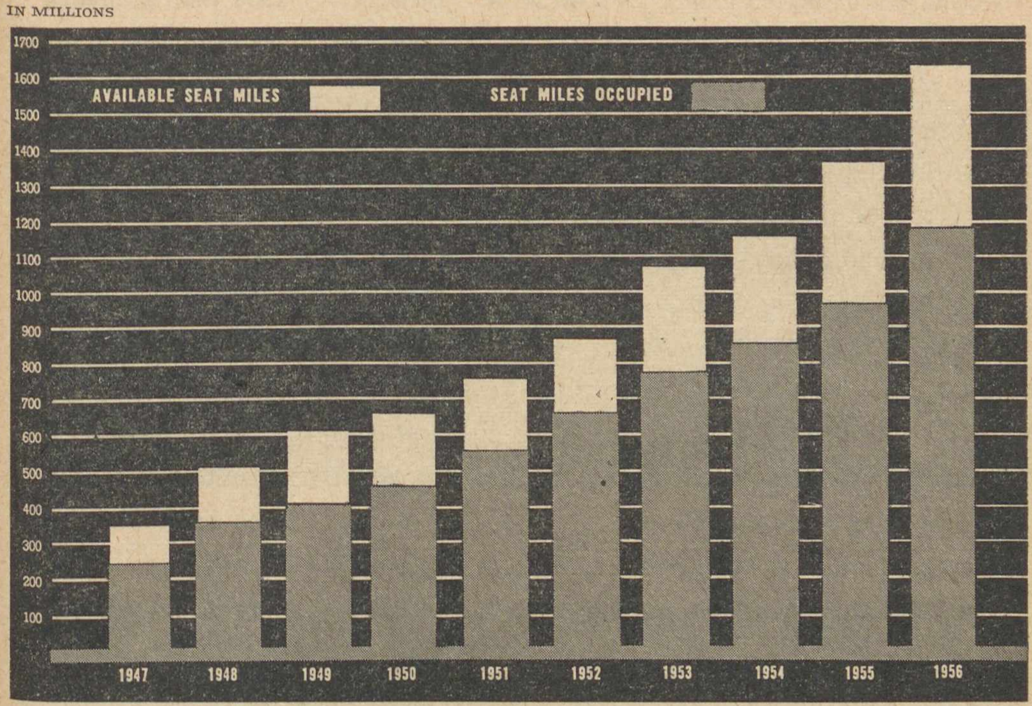
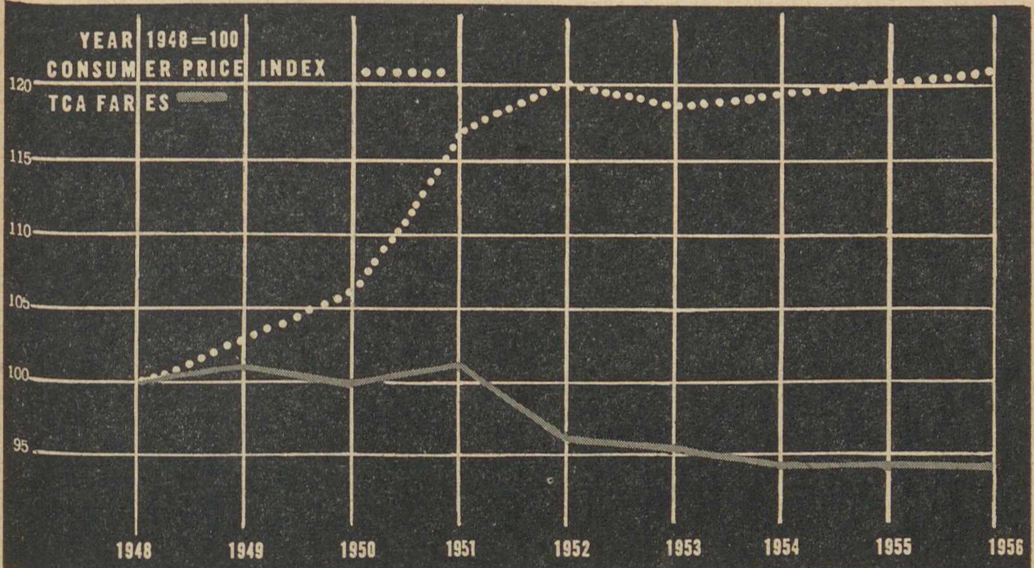
SEAT MILES MADE AVAILABLE AND SEAT MILES OCCUPIED
1947-1956



INDEX OF TCA FARES vs. CONSUMER PRICE INDEX
1948-1956



SIGNIFICANT STATISTICS

	1956	1955	% Change
Revenue Passengers	2,072,912	1,682,195	+23·2%
Seat Miles Made Available (000's)	1,631,238	1,380,919	+18·1%
Seat Miles Occupied (000's)	1,191,784	969,392	+22·9%
Revenue Passenger Load Factor	73·1%	70·2%	
Mail Ton Miles (000's)	8,613	7,704	+11·8%
Express Ton Miles (000's)	2,548	2,167	+17·6%
Freight Ton Miles (000's)	11,928	9,951	+19·9%
Ton Miles Made Available (000's)	235,934	202,177	+16·7%
Ton Miles Used (000's)	141,778	116,706	+21·5%
Weight Load Factor	60·1%	57·7%	
Total Aircraft Miles Flown (000's)	41,039	36,247	+13·2%
% Scheduled Miles Completed	95·6%	96·4%	
Average Number of Employees	8,788	8,414	+ 4·4%
Seat Miles Made Available per Employee	185,621	164,122	+13·1%

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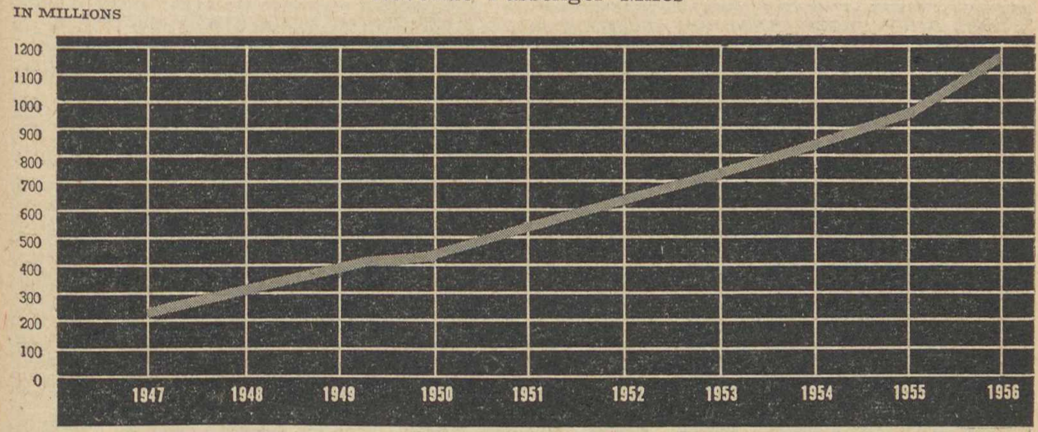
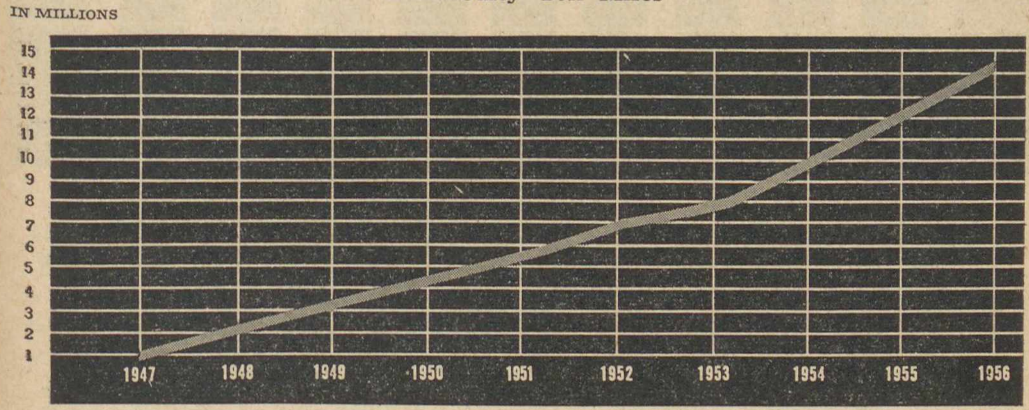
GROWTH OF PASSENGER, COMMODITY AND MAIL TRAFFIC 1947-1956

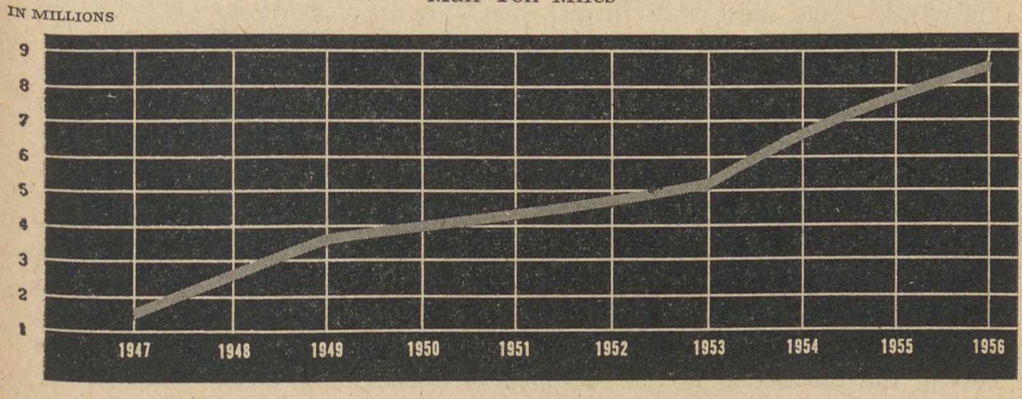
Revenue Passenger Miles



Commodity Ton Miles



Mail Ton Miles



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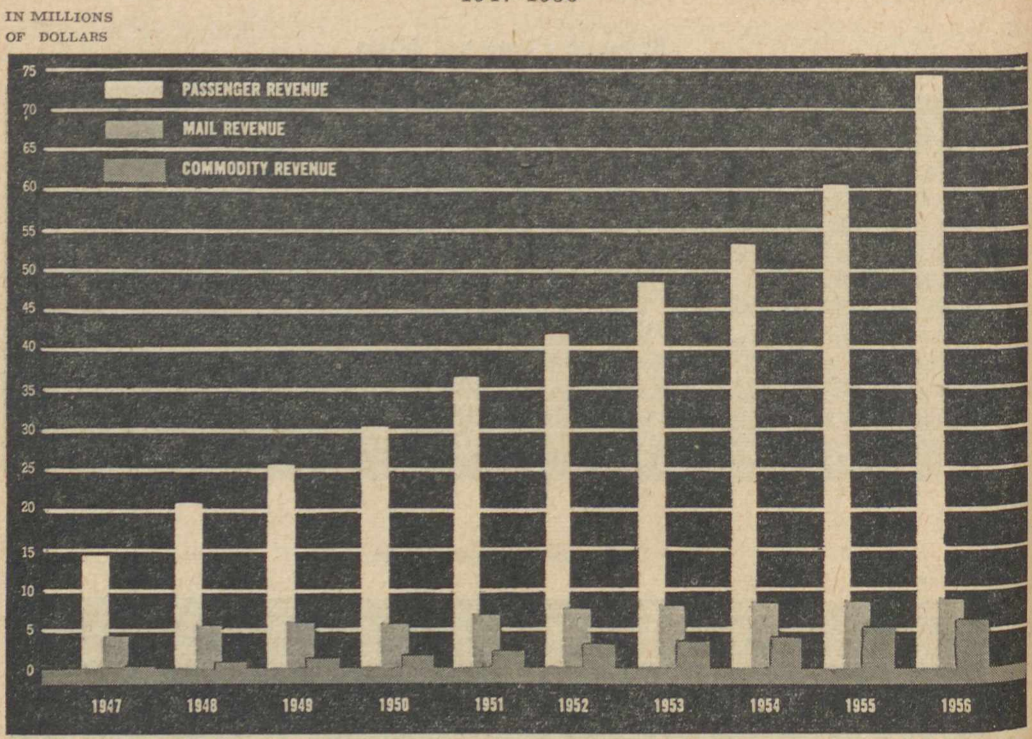
SOURCES OF TCA SYSTEM REVENUE

1947-1956



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The Acting CHAIRMAN: Thank you, Mr. McGregor. Now perhaps we should turn to page 5. Are there any questions on page 5?

Hr. HAHN: Mr. McGregor, I think you are familiar with the statements and requests that we have made year after year regarding the possibility of opposition airlines being set up on a trans-Canada basis. With that in mind, I was wondering whether T.C.A. has now reached, in your mind, a maximum of efficiency on its present operations which would call for any further expansion such as you are proposing in connection with an increase in staff, etcetera, and which could meet with further competition being set up, probably, on a trans-Canada basis.

Mr. McGREGOR: Well, Mr. Hahn, I can speak only from the standpoint of the company itself. It is my hope and belief that the efficiency of the airline with respect to productivity of personnel and the over-all costs per unit of transportation would continue to improve as the volume increases. It seems to me that the production of air transportation, like almost any other production, means that the greater volume the company is handling, the lower the unit cost. It seems obvious, if that assumption is correct, that anything that tends to decrease the volume of air transportation provided by any one company or, for that matter, restricting its increase, is going to have the effect of increasing the cost per unit and therefore, either of increasing the cost of the production to the consumer or producing a deficit operation by the company.

Mr. HAHN: Well, now, we are going to replace the present aircraft, that is the motorized or, I should say, the piston-driven one, apparently by this new turbo-jet and the bigger aircraft, the Vanguards and so on. I am wondering whether the only factor that we will gain is probably a greater cargo ratio that could be carried, I am wondering whether you can actually visualize a decreased cost to the user of the aircraft. Also, whether you do consider the change is desirable from the point of view of all things being equal and our inflationary tendencies, let us say, remaining constant for the next three years, a decreasing passenger or cargo rate.

Mr. MCGREGOR: That is a very interesting point, Mr. Hahn. In effect we like to think in the airline that exactly that has taken place. The ingredients of air transportation, fuel, particularly labour—that is skilled labour—and all the other components that go to make up production of air transportation, have risen sharply in price over the years and continues to do so. Whereas the net return on air transportation is, as the report records, slightly decreased in spite of the rising of the general cost of living and the cost of commodities.

Mr. HAHN: Would you please repeat the last part of your answer, I did not get that.

Mr. MCGREGOR: I said that the revenue to the company per unit of transportation has decreased slightly, as is recorded in the report.

Mr. HAHN: Oh yes, I see.

Mr. MCGREGOR: By 2 per cent, as a matter of fact.

Mr. HAHN: Well I see here we have had a substantial increase in our profits, which probably does not bear a real ratio in respect to the capital investment that we have. Furthermore, with this increase and the change to other types of aircraft or larger aircraft, you still do not see any occasion —although I would like to stress this, you have not increased the price of our fares at least, whether you do on other lines or not—but do you see any possibility at all in the future of bringing down the cost of fares?

Mr. MCGREGOR: We believe that we do, Mr. Hahn; but again it is a question of how much the cost of the ingredients of the product continues to rise. If they maintain, as you say, the slope on which they have been, then we believe very definitely that with the increased efficiency of the equipment we can decrease the cost.

Mr. CARTER: In calculating your revenue per ton mile, Mr. McGregor, do you include the weight of the passengers carried?

Mr. MCGREGOR: The cost per ton mile referred to in the report is what we call the available ton mile, that is the total lift of the aircraft, regardless of whether it is actually used in the form of passengers, mail, express or cargo. In other words, it has nothing to do with the purpose for which the space is used.

Mr. CARTER: Oh, that is what I wanted to get at, because you mentioned the growing impact of tourist fares as having the effect of lowering your revenue per ton mile.

Mr. MCGREGOR: The same could have been said of our revenue per passenger mile which, by the way, has dropped off, if I remember rightly, from 6.34 cents in 1955 to 6.27 cents per passenger mile in 1956.

Mr. CARTER: When you say that do you mean the total capacity to carry?

Mr. MCGREGOR: No. When I refer to those figures I am referring to the return or revenue from actual passenger miles carried.

Mr. CARTER: Yes, but that is both cargo and passenger return—

Mr. MCGREGOR: I was originally referring to the available ton mile.

Mr. CARTER: The actual return for the ton mile cost—you said it went down 2 per cent.

Mr. MCGREGOR: Yes, that is right. Both units of measurement are fairly common in air transportation. It is a little bit confusing though.

Mr. CARTER: But you have combined them.

Mr. STEWART (*Winnipeg North*): Have you worked out an estimate, Mr. McGregor, of your possible increase in operating expenses this year?

Mr. MCGREGOR: Yes.

Mr. STEWART (*Winnipeg North*): Will it be as great as last year?

Mr. MCGREGOR: Yes, it will be slightly greater. There will be an operating budget for 1957 tabled later on which will reflect that.

Mr. STEWART (*Winnipeg North*): And the only way you can recover that, of course, is by increased passenger and freight revenue?

Mr. MCGREGOR: Yes.

Mr. HAHN: If I may refer to page four, I do not think we discussed it. We have here the income from operations, and I notice for 1956 that it has almost doubled what we had last year. What is the greatest proportion of that increase, or how do you account for the big proportion of that increase?

Mr. MCGREGOR: Passenger revenue is the greatest increase.

Mr. HAHN: Passenger revenue is the greatest increase?

Mr. MCGREGOR: Yes.

Mr. HAHN: On trans-Canada hauls, or on shorter ones?

Mr. MCGREGOR: No, I would say across the system but, I would think that on the longer haul, the greater increase occurred.

Mr. HAHN: What would you set that down to? Is it the peculiar nature of the industrial development, let us say, in British Columbia? Is it more in that direction, or is it in an easterly direction?

Mr. MCGREGOR: I think it is a general increase in the acceptance of air transportation—more acceptable aircraft, and greater speeds—and an increase in the general level of business activity across the country. The reason I am quite sure that the increase has been more substantial on longer hauls is that, the saving of time provided by air transportation pays off to a greater degree on long-haul operations.

Mr. HAHN: And of course, if you are bringing in these bigger aircraft, you visualize an even greater increase on that?

Mr. MCGREGOR: We have forecast that, Mr. Hahn.

Mr. CARTER: Would that difference, that Mr. Hahn just referred to, namely doubling your income from the previous year, mean that your peaks and hollows would have now pretty well levelled out?

Mr. MCGREGOR: Definitely not; we are still suffering from seasonal fluctuation in traffic volume. But, of course, we are talking about income, not gross revenue, in that figure.

Mr. CARTER: Yes.

The Acting CHAIRMAN: Any further questions on page five?

Mr. HAHN: My interpretation of this—and I am still on page four—is that the difference is some $4 million increase, while our net income has risen $1,366,117. We must have lost considerable on some other of the airlines. What loss would that be, particularly; could you tell us that?

Mr. McGregor: I do not think that is a question, Mr. Hahn, of losses on differing lines. Perhaps I should point out at this juncture that all these figures covered in this financial review, which is just the highlighted matter, are dealt with in greater detail in the report.

Mr. Hahn: We will discuss it when we come to the report.

Mr. Byrne: How do our domestic rates compare with the American rates?

Mr. McGregor: They are a fraction of a cent higher.

Mr. Hahn: That is, per mile?

Mr. McGregor: Yes, per passenger mile.

Mr. Hahn: What difference would there be on a Trans-Canada run, let us say, between Ottawa and Vancouver, and New York to Seattle flight? Can you give us some figures on that?

Mr. McGregor: Yes, we can, Mr. Hahn. I can have that for you after lunch.

The Acting Chairman: Any further questions on page five?

Mr. Knight: To what extent does the provision of tourist accommodation account for this enormous increase this year? Can you estimate that?

Mr. McGregor: To a large extent. The tourist traffic being cheaper tends to grow more rapidly than the first class. As we mention in the report, part of the reason for that reduction in the average return to the company, per passenger mile, is that a greater proportion of the total traffic is being flown on tourist services.

The Acting Chairman: Page six.

Mr. Hahn: On page five we have the revenue from mail. Is that proving to be a very big source of income, or could this space be better devoted to some express cargo other than mail?

Mr. McGregor: No. The total revenue from mail is in excess of $8 million. It is the type of traffic that is fairly constant throughout the year. The loads can be forecast quite accurately, and provision made for the space. Whereas the volume of traffic sold to the consumer fluctuates widely, seasonally and otherwise, I think the space in the aircraft, both from the standpoint of return to the company, and its constant volume, to which I have just referred, makes it an extremely valuable cargo to the airline.

Mr. Hahn: As this is a public utility, or considered to be, can you see that there is a possibility of first-class airmail being carried at a lesser price on the new planes than what we have it carried for in this instance?

Mr. McGregor: Mr. Hahn, over the years it has been carried at a steadily decreasing price.

Mr. Hahn: Do I understand that the additional profit the Post Office Department has made—I understand they made two cents a letter—could be accounted for, to a major degree, because of the lesser cost that you are assessing to the transportation of mail?

Mr. McGregor: I am afraid I do not know what caused the increase in postal revenue. But, as you will see from the graph at the bottom of page eight, the return per unit of mail carried has decreased steadily over the years and, by the very nature of our contract with the post office, will continue to do so as the volume of mail carried increases.

Mr. Hahn: It is based completely on volume?

Mr. McGregor: Yes.

Mr. Knight: I suppose the railroads are giving you less and less competition in the matter of mail carried, if one takes into account the speed and so forth?

Mr. McGREGOR: I think that may be so. But, the fact is that the volume of mail given to us by the Post Office has increased steadily each year.

Mr. KNIGHT: I presume that corresponds to a corresponding decrease in the carrying by trains?

Mr. McGREGOR: Not necessarily, Mr. Knight, because the total volume of mail, I expect, is going up.

Mr. KNIGHT: I think that it is true, nevertheless.

The Acting CHAIRMAN: Page six.

Mr. JOHNSTON (*Bow River*): Mr. Chairman, there is a question I would like to ask. I notice we are talking about the delivery of additional Viscounts.

Mr. HAHN: If I could just interrupt a moment, Mr. Johnston. I wonder if it would be desirable to take this item by item, instead of by the page? It is rather awkward to cover two subjects at a time.

The Acting CHAIRMAN: Service and traffic growth.

Mr. HAHN: That is one we are on now.

Mr. JOHNSTON (*Bow River*): Then my question comes in here.

What is being done with Viscounts, in light of the information which we have from England, where they have had, I understand, accidents with Viscounts? I think our Viscounts are the same type of plane that had these accidents in Britain, and they have grounded theirs, as you know. I think there has been some defect found in the tail assembly. I was wondering what we are doing to inspect our Viscounts to see if there is anything that needs to be checked on those.

Mr. McGREGOR: In the first place, there was only one accident in England, so far as I know. In the second place, each make of aircraft has variations in type, and our Viscounts are not the same as the type involved in the accident at Manchester. The B.E.A. aircraft was a type 701 Viscount, and the two types operated by T.C.A. are type 724, and 757.

In respect to the accident at Manchester, the investigation of the wreckage determined, according to the information which we have, that the accident had been attributable to the failure of the wing flap hinge mechanism.

As is always the case in any aircraft being operated by more than one company, when information of that kind becomes available it is at once distributed to all the operators of the general aircraft type.

As a result of that, our Viscounts were all subjected to an examination of the flap mechanism. The situation that was found there was entirely satisfactory. Two days after that it was decided that in the case of the older Viscounts, to make assurance doubly sure, certain bolts in the flap mechanism should be replaced. That was undertaken, beginning the night before last, with the result that, 12 aircraft were back in normal service, by yesterday morning. Sixteen Viscounts, of the fleet of 24, were back in full service this morning; and we expect, by Friday morning, that the whole replacement bolt program will have been completed.

Mr. JOHNSTON (*Bow River*): You were saying that we were using different types than they are in England, but is that wing flap assembly the same on different types?

Mr. McGREGOR: There are minor differences, but the relationship was close enough to require us to do exactly the job that I have described.

Mr. JOHNSTON (*Bow River*): You found everything satisfactory on ours?

Mr. McGREGOR: We did.

Mr. HAHN: On the North Atlantic service, is it intended to use the big passenger planes, that we are ordering, for that particular purpose, or is it your intention to run services, let us say, directly from Vancouver, even, with a stop-off, probably in Montreal, to England?

Mr. McGREGOR: Yes. A careful study has been given, Mr. Hahn, to the question of originating trans-Atlantic flights at different cities in Canada. As you probably know, three flights a week already originate in Toronto, and the western terminus of our trans-Atlantic service will be moved to western centres as fast as the traffic seems to warrant it.

Mr. HAHN: Is there a heavy potential in the, let us say, Pacific coast region and the prairie region, in respect of overseas transporting?

Mr. McGREGOR: Yes, the potential is good, but not as heavy as the two major eastern cities.

Mr. HAHN: On page seven we have a reference to the tragic accident in British Columbia. I wonder if you would care to make a statement in addition to what has been made to date on it?

Mr. McGREGOR: Yes.

Unfortunately, as the report states, the situation has not altered since the report was written. Nothing but conjecture can be indulged in at this time, and I think perhaps that would be, unkind, certainly to next of kin. The situation with respect to that flight, prior to its disappearance, gave no cause for alarm, and a very detailed review of the radio log of transmissions to and from and the aircraft is quite astonishing, in that it reflects not the slightest concern on the part of the crew.

The next thing, of course, was thta no contact could be made with the aircraft. A very extensive search was carried on, as you know, hampered seriously by weather. Heavy precipitation of snow in the region began almost concurrently with the accident, and tended to reduce the possibility of finding the wreckage. The terrain is particularly precipitous, and the possibility of any life having survived the first contact of the aircraft with the ground, in my mind, is extremely remote. Any aircraft coming in contact with that terrain would almost certainly break up into very small pieces. We are left, therefore, with a complete mystification as to the cause, with no hope of determining the cause until, and if, the wreckage is located.

Mr. HAHN: The terrain, as you say, is certainly precipitous. I am wondering whether you feel that it would not be desirable to erect more communication stations in the mountainous areas to try to keep direct—well, so we could keep a log, not just in two or three areas like we have today, but so we could pinpoint the exact spot of the flight at all times. It seems so difficult to find planes in this region.

Mr. McGREGOR: Mr. Hahn, the situation already is that the aircraft are never out of radio communication with ground stations, so that I do not think increasing the number of ground communication stations would improve the situation to which you referred. In this particular case, the aircraft was carrying on ground communication with Vancouver, and with another flight of ours. I do not see how an increase in ground communication stations would have helped in this case.

Mr. HAHN: Whenever we do have an accident of this type, we always hear all kinds of suggestions as to colours of the plane, the use of automatic flares and so on. I wonder if, for public information, you would care to make a statement at this time respecting the use of the suggested equipment?

Mr. McGREGOR: Yes. As a matter of fact, as you might suppose, the company was deluged with suggestions, some of them obviously based on good technical knowledge, and some of them not, and as is always done, they were reviewed. I think that is always the type of problem that is in the airline's mind. Frankly we know of nothing that could be effective under circumstances of this kind, where an aircraft has come down in terrain that would almost certainly mean its complete breakup. On the other hand, if the aircraft had come down in terrain where that situation would not have applied, then too the difficulty of finding it would almost surely disappear.

Mr. STEWART (*Winnipeg North*): Mr. McGregor, I have long felt that T.C.A. has got one of the best records of any airline in the world. Can you give us any figures to substantiate that?

Mr. McGREGOR: Yes. Figures are established on the basis of fatalities per millions of passenger miles flown. I am appreciative of your remarks, and I can confirm that T.C.A.'s standing is extremely high. On the other hand, there have been airlines that have come into service—and in one case, that has gone out of service: Colonial Airlines—where they had operated for 20-odd years and had not had a fatality. So, I do not think we can say we are at the top of the list. On the other hand, I think we can say, considering the volume of transportation provided, that we stand very well.

Mr. KNIGHT: Mr. McGregor, to go back to the question of this lost aircraft, there is one thing I have been curious about. In the case of a loss like this, and the search which is instituted, whose is the ultimate responsibility and, I suppose, expense, in carrying on a search of that kind? What, for instance, is the degree of your responsibility, as the owner of the aircraft itself? How is that responsibility divided with others, and what is your responsibility; or what responsibility do you assume in a case of that sort?

Mr. McGREGOR: Mr. Knight, in the case of any lost aircraft over Canada, there is a unit—perhaps I should say a division—of the R.C.A.F., whose responsibility it is to carry out the search. The Search and Rescue division of the Royal Canadian Air Force came into operation immediately after the loss of our aircraft was reported, and continued for several weeks. Not content with that, or perhaps I should say, hopeful that our intimate knowledge of the route, which we fly, would be helpful, we carried on an extensive search with our own aircraft and our own pilots. However, the responsibility, I think it is correct to say, lies with the Search and Rescue division of the Royal Canadian Air Force.

Mr. STEWART (*Winnipeg North*): Do you have trained personnel who can evaluate the reason for accidents?

Mr. McGREGOR: Yes.

Mr. STEWART (*Winnipeg North*): And they have been trained in some of the modern methods of doing that?

Mr. McGREGOR: They have, indeed. An amazing amount of information can be obtained by personnel of that type from what looks like hopeless wreckage.

Mr. JOHNSTON (*Bow River*): Whenever you have an accident of that kind, what is the immediate effect on air travel?

Mr. McGREGOR: That is a rather difficult question to answer, because it has changed a great deal over the years. It used to be that an accident almost anywhere, and not concerning a specific airline, would have a depressing effect on traffic. In more recent years, that apparent effect has almost disappeared.

Mr. JOHNSTON (*Bow River*): But it does have an effect?

Mr. McGREGOR: Some.

Mr. BYRNE: Mr. McGregor, last year the research committee, I believe it was, were told that an instrument was being developped that could be mounted on an aircraft in such a manner that in the event of a crash, it would be released, would fall away from the aircraft, and set up signals—radar or radio signals. Have you made any study of that instrument?

Mr. McGregor: Yes, very serious ones.

There are two or three things about all that equipment. There are certain circumstances under which it might be of some help. But for the most part it is believed that equipment of that kind would be of very little value.

For a transmitter to have any range of signal, it is necessary for it to have an antenna. Anything that went down with an aircraft that crashed in mountainous country would probably be broken up, or any automatic device, by which it would erect an aerial of its own, in all probability, would not be functioning. It is therefor felt that while equipment of that kind, in a very special type of accident, might be of some help, the probability is that it would not.

Mr. Hahn: Mr. McGregor, getting back to the accident itself, I believe you understand quite well that the committee—at least I, as a member of the committee, would compliment the members of the T.C.A., and the personnel of the R.C.A.F. search and rescue division, because we know some of the effort that was put forth in trying to find this particular plane. But there was one question I had included in my earlier remarks. Because we have so many observations made in respect to colouration of a plane, it would be desirable to have you comment specifically as to why there is not a colour other than the aluminized used on the over-all plane itself—that is, on the fuselage and elsewhere?

Mr. McGregor: That has been very carefully investigated, Mr. Hahn. There has been an investigation of fluorescent paint, even radioactive paint, and of various colours of paint. It depends a great deal on the background against which the aircraft or wreckage may be lying, as to whether one colour or one type of paint is any better than another. Generally speaking, we are inclined to believe that the dural, particularly if it can reflect the sun, which it will do better without a coating on it, is most likely to produce sighting from the air. That, obviously, cannot be true in the case of overcast skies and a snow background.

Mr. Hahn: The point I was trying to get at—and you have not touched on it, and I did not mention it earlier, because I thought you might bring it in yourself—is that one of the arguments posed as to the reason for not using colour—not necessarily posed by technicians, and possibly for that reason you should make some comment on it—is that the heat complex, having to do with the carriage of fuel, and so on, would have an effect that probably would be rather detrimental to its use on the plane itself. It might be a matter of heat. It could be in a fact that with certain colours you would have too much heat being carried through to the plane. I think some comment on that would be of value.

Mr. McGregor: Yes. The only colour that has been used on commercial aircraft is on the top half of the fuselage, and it is white for the very reason you mention, one which is not associated with fuels, but with passenger comfort. However, various areas of the aircraft can be painted in darker or brighter colour, which would not affect passenger comfort, and which might be intact after a complete breakup.

Mr. Fulton: While we are on that subject, I have had a question, which I was asked to raise, as to the availability, and serviceability of the airport in Princeton, in the event of an emergency. Has that been touched on in the earlier questioning?

Mr. McGregor: No, Mr. Fulton, it has not. I would think that, under normal weather conditions, or perhaps under, say, better than normal weather conditions, Princeton, from a runway standpoint, would be satisfactory for landing—that is, on an emergency basis, although it might not be satisfactory for a subsequent take-off, particularly with a load. Perhaps I should ask Mr. Seagrim if he would like to comment on that.

Mr. Seagrim: That is the case. It would be satisfactory for an emergency landing, under reasonably good weather conditions, with any of the types of aircraft that we have today; but it would not be satisfactory for a full-load take-off.

Mr. Fulton: We were thinking of getting it down more than anything else. Would that include the Constellation aircraft used at night? Are there night lights?

Mr. Seagrim: There are night lights there, and the runway is marginal; but for emergency purposes, I think it could be considered usable.

Mr. Fulton: So that no pilot would hesitate to use Princeton on the grounds that he felt he could not get down safely, if the emergency was such that he knew he should come down right away? Would that be a fair statement?

Mr. Seagrim: Yes, I think it would be.

Mr. Johnston (*Bow River*): Mr. McGregor, when it comes to having passengers travel on these aeroplanes, how does the insurance apply? Are they automatically insured with the purchase of their passage, or does that have to be done separately by the individual?

Mr. McGregor: No, they are not automatically insured. There are insurance facilities at airports, in the case of the major airports there are insurance sales counters. Insurance can be bought over the ticket counters of the airlines and insurance can also be bought from automatic vending machines.

Mr. Hahn: I take it from what you say then that, other than from the vending machine, no one received any insurance solely from the aircrafts, if their own life insurance policy did not cover passage by plane.

Mr. McGregor: In the case of passengers on flight 810 on December 8 there was a considerable amount of insurance. Whether that was bought from the automatic vending machine or through their own normal insurance coverage, I am not in a position to answer.

Mr. Hahn: How much would you estimate that the over-all cost has been to T.C.A. of this particular accident?

Mr. McGregor: Mr. Hahn, inasmuch as the case is still unresolved I think it might be prejudicial to the interests of both the next of kin and, perhaps, to the company to venture any opinion on that. In the case of T.C.A.'s own insurance there is a $1 million deductible on our over-all insurance policy, which means that the company's liability cannot exceed that.

Mr. Hahn: That includes through, a form of passenger insurance, does it?

Mr. McGregor: No it includes the airline's insurance against claims made against it and the loss of the aircraft.

Mr. Hahn: But not loss of life itself?

Mr. McGregor: No.

The Acting Chairman: Are there any further questions on pages 6 and 7?

Agreed to.

Page 8.

Mr. Knight: Now that we are on page 8—or as far as I know at the moment we are—I note with some pleasure at the top of the page that Mr. McGregor's airline's operations include several routes of uneconomic traffic potential in keeping with T.C.A.'s responsibility to provide a truly national service. I would like that emphasized, particularly with regard to the last few words. Are there many of these routes and where are they and what are they?

Mr. McGREGOR: The type of route that falls into that category, Mr. Knight, is the route that touches at some quite small points, usually several of them, between two major points.

Mr. KNIGHT: Oh yes, I understand.

Mr. McGREGOR: Places such as—and this is not detracting from them at all—Brandon, Swift Current, Medicine Hat, Yorkton, where there is a daily two-way service with the average passenger boarding at two and a half or three passengers per day. It is not possible in my opinion to land a modern aircraft or even a somewhat obsolete aircraft for that amount of traffic, remembering also that there are comparatively short hauls as a general rule, and do it economically on a main line operation basis.

Mr. HAMILTON (*York West*): Well while we are still on page 8, did the T.C.A. consent to the change of route or at least to the addition of the C.P.A. route to Lisbon—were they consulted at all?

Mr. McGREGOR: The proposal to deal with the application of C.P.A. by the Air Transport Board was circularized to T.C.A., and T.C.A. did not avail itself of the opportunity which it had to intervene.

Mr. HAMILTON (*York West*): Well now, Mr. McGregor, did you only hear about it through the Air Transport Board's circular or did you have any conversations or correspondence concerning it before that?

Mr. McGREGOR: I could not be sure, Mr. Hamilton, which occurred first. We certainly knew about it in ample time to intervene if we wished to.

Mr. HAMILTON (*York West*): You cannot remember though?

Mr. McGREGOR: I could find out, I think, if you would like to know.

Mr. HAMILTON (*York West*): Yes, would you find that out, and was there any understanding in advance that that extension of their service to Lisbon was satisfactory to T.C.A., before they made the application. Would you know that?

Mr. McGREGOR: Oh, I wouldn't think so.

Mr. HAMILTON (*York West*): Would you check on that also.

Mr. McGREGOR: Well I cannot check on what C. P. A.'s attitude might have been in the matter.

Mr. HAMILTON (*York West*): Oh no, but in connection with the chronological order of events.

Mr. McGREGOR: Yes, we will do that.

Mr. HAMILTON (*York West*): As to whether you had any correspondence with them or any understanding with them before the circular from the A.T.B. was received.

Mr. McGREGOR: I am sure on one point that you mention: there was no correspondence.

Mr. HAMILTON (*York West*): You may have had conversations with them though?

Mr. McGREGOR: Yes.

Mr. HAMILTON (*York West*): I see. Well now, how is this going to affect your trans-Atlantic traffic potential?

Mr. McGREGOR: We, at the time, when we were determining whether or not there would be any intervention calculated what the traffic potential of the route would be and we considered, particularly in view of C.P.A.'s contention that their main anxiety was to carry their Mexico traffic which they bring to Toronto on to Europe, that the effect on T.C.A. would not be extensive.

Mr. HAMILTON (*York West*): Well is it a necessity of their license that they carry traffic, say by the same plane, right from South America through to Lisbon?

Mr. MCGREGOR: No; it was stated to be their intention though.

Mr. HAMILTON (*York West*): But it is possible for them to add flights if they wish, say out of Toronto or Montreal?

Mr. MCGREGOR: The license so far as I know has not been granted yet, although I am sure it will be. However, I am quite sure it will have no restriction in it as to capacity.

Mr. HAMILTON (*York West*): I see. Well now there will be no restriction whatever as to their being able to pick up passengers at Toronto or Montreal, although you do not anticipate that?

Mr. MCGREGOR: I do not anticipate any restriction.

Mr. HAMILTON (*York West*): Then is your answer, saying that you thought it was a logical application in connection with a desire to take passengers right from South America through, in any way restrictive as to what they can do in Canada at the two other points I mentioned?

Mr. MCGREGOR: I think you must have misinterpreted me, Mr. Hamilton. I did not say I thought it was logical.

Mr. HAMILTON (*York West*): Oh; what did you say?

Mr. MCGREGOR: I said that C.P.A. had contended that their intention was largely to meet their requirement for carrying traffic between Mexico and southern Europe.

Mr. HAMILTON (*York West*): Well was the reason why you did not oppose that situation because of that contention?

Mr. MCGREGOR: No; the reason we did not oppose it was because we had a record of the traffic volume moving between Canada as a whole and southern Europe, and it was not impressive to the point of justifying a contest on the operation which was proposed.

Mr. HAMILTON (*York West*): How about a passenger destined to London? Would there be any fare differential if he were able to embark at Montreal and go to Lisbon and then on to London?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*York West*): Would he be able to do it as cheaply as you could?

Mr. MCGREGOR: No.

Mr. HAMILTON (*York West*): What would be the fare differential?

Mr. MCGREGOR: I would hesitate to guess. It would be in the order of $25 or $30 more, due to the additional mileage.

Mr. HAMILTON (*York West*): That would not be applicable then, you say, to any other point in Europe—that differential?

Mr. MCGREGOR: Yes it would be applicable to all points where the mileage was greater over Lisbon.

Mr. HAMILTON (*York West*): But in connection with the European service you did not think there was too much worry from your standpoint?

Mr. MCGREGOR: That is correct.

Mr. HAMILTON (*York West*): Now what about the situation dealing with the loss of traffic between Toronto and Montreal that you may face because of the fact that we now have an inland port of embarkation for the European service? Have you figured out how much traffic you might lose from those two points?

Mr. MCGREGOR: Perhaps I should point out, Mr. Hamilton, that we have been originating trans-Atlantic flights from Toronto for over two years.

Mr. HAMILTON (*York West*): You have been, but nobody else has.

Mr. MCGREGOR: That is right, and due to the small number of originating Canadian passengers on the service that we estimated, we did not consider that the loss of traffic such as Toronto and Montreal, would prove to be bothersome.

Mr. HAMILTON (*York West*): That is the number originating there for points in Europe as distinct from the U.K.—would that be right?

Mr. MCGREGOR: Yes. A great deal more for Europe other than the U.K. There is France, Belgium, Scandanavia and so on.

Mr. HAMILTON (*York West*): All right now. There will be very little loss then to T.C.A. on what I would call the domestic route from Toronto to Montreal because of this.

Mr. MCGREGOR: We so estimated.

Mr. HAMILTON (*York West*): Now on that basis would there be any objection, say, to C.P.A. stopping at Edmonton on their Amsterdam service?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*York West*): There would be an objection?

Mr. MCGREGOR: Yes, from the T.C.A. standpoint.

Mr. HAMILTON (*York West*): Well, what would be the difference between traffic that you might lose going to Europe—domestic traffic between Toronto and Montreal—which you apparently figure is insignificant, and what you might lose between Edmonton and Vancouver going to Amsterdam?

Mr. MCGREGOR: About 1,700 miles of haul.

Mr. HAMILTON (*York West*): Then your calculation is that you would lose all those people who presently would go from Edmonton to an eastern port of embarkation and then to Europe. Is that correct?

Mr. MCGREGOR: No, not necessarily all of them but a proportion of them.

Mr. HAMILTON (*York West*): And you figure on the basis, not so much of the traffic volume, but the passenger mile volume.

Mr. MCGREGOR: Both, Mr. Hamilton.

Mr. HAMILTON (*York West*): Could you get us down to say the dollars and cents in a year, as to what your traffic people have figured they would lose. They must have made some studies on the Edmonton situation. What would be the loss if Edmonton were added to that service as compared with the loss that was occasioned, in your calculations at least, between Toronto and Montreal?

Mr. MCGREGOR: We made an estimate of the traffic volume that we thought might be picked up by C.P.A. in Toronto and, if I remember correctly, it was something like 30 a month.

Mr. HAMILTON (*York West*): That would be 30 two-way passengers you would lose per month from Toronto to Montreal.

Mr. MCGREGOR: Yes, assuming that they were return passengers. The value of that in revenue, a one-way ticket between Toronto and Montreal being something in the order of $25, which we regard as negligible.

Mr. HAMILTON (*York West*): That will be about 1,500 on a two-way trip?

Mr. McGregor: Yes. The value of traffic from Edmonton we thought might be in the order of $288,000 per year.

Mr. Hamilton (*York West*): So that would be how your calculations were figured. You have been able to tell us the passengers you are losing from Toronto to Montreal, which I figure would mean $18,000 per year as against $288,000, now where would those people all originate, from where did you calculate them?

Mr. McGregor: Where did they come from? Well, of course, Edmonton itself, certainly, Calgary, probably Lethbridge—more than likely Saskatoon and the area north of Edmonton, which is quite extensive, and many air services into Edmonton as a junction point.

Mr. Hamilton (*York West*): Were all those calculations based then on air miles to Montreal?

Mr. McGregor: Yes.

Mr. Hamilton (*York West*): Or was that based on air miles from points to Vancouver?

Mr. McGregor: No, based on airline distance to Montreal.

Mr. Hamilton (*York West*): Those are present calculations from present traffic volume?

Mr. McGregor: Yes, and projected also.

Mr. Hamilton (*York West*): Would you know if C.P.A. is drawing much of its traffic from central Canada or the west coast to take that flight?

Mr. McGregor: I do not think so.

Mr. Hamilton (*York West*): Where is it from—the States?

Mr. McGregor: No, it is coming from Vancouver or Victoria area and some of it is Oriental or Australian, also New Zealand traffic which arrives in the Vancouver service.

Mr. Hamilton (*York West*): You have got this $288,000 broken down, have you, in your calculations as to the numbers of people?

Mr. McGregor: Yes, we could give you that.

Mr. Hamilton (*York West*): Could you give me that? Thank you. I do not expect you to get it for me today but I might be interested in the future.

Mr. McGregor: Yes, we will be glad to.

Mr. Knight: There is just one question on page 8, Mr. McGregor, which I would like to ask in connection with immigrants, where you say new excursion fares and low cost immigrant fares were introduced. Now, low cost immigrant fares—that would not be low cost to the individual immigrant. It would be some scheme would it, some government supported scheme for bringing immigrants over collectively?

Mr. McGregor: Not in this case, Mr. Knight. This report deals with a period of time prior to this more recent development of the government airlift scheme. This was the I.A.T.A. group immigrant fare that was decided upon last summer.

Mr. Knight: In other words it is open to all immigrants on an individual basis?

Mr. McGregor: That is right.

Mr. Knight: Well now, you have mentioned a new scheme which is called an airlift and which we are looking forward to. That is commencing somewhere about now, I believe. What are your plans for that, or to what extent is T.C.A., as such, involved in this plan?

Mr. McGregor: T.C.A. was asked to function as administrator of the airlift in the U.K., to arrange for the designation of passengers to various chartered flights and to look after ticketing and all the arrangements associated with actually getting the people into the aircraft. T. C. A. has not chartered aeroplanes for that purpose but is making seats available in its regular flights.

Mr. KNIGHT: And will that mean, as I suppose it will, that you will have almost 100 per cent capacity in your aeroplanes? I mean all available extra space on these regular aeroplanes will be filled.

Mr. MCGREGOR: I think that will be the case.

Mr. KNIGHT: Will be filled 100 per cent?

Mr. MCGREGOR: Yes.

Mr. FOLLWELL: You do not get the same fare, though, do you?

Mr. MCGREGOR: No.

Mr. HAMILTON *(York West)*: Did I understand you to say that you did not bid on any of these schemes?

Mr. MCGREGOR: Yes, that is right.

Mr. HAMILTON *(York West)*: Did you consider bidding at all in any of these airlift types of schemes?

Mr. MCGREGOR: No.

Mr. HAMILTON *(York West)*: How many seats are you using on your DC-4 or North Star aeroplanes, which is just another mark probably; what is your latest seating capacity?

Mr. MCGREGOR: We are not operating the North Stars on the Atlantic run.

Mr. HAMILTON *(York West)*: No, I wonder what your latest seating capacity is however?

Mr. MCGREGOR: 62 at the tourist fares.

Mr. HAMILTON *(York West)*: Then you could not bid on these things on the basis of bringing over say 75 to 80 people, could you, without completely changing your aeroplane?

Mr. MCGREGOR: We would not want to put the North Stars back on the trans-Atlantic operation because the Super Constellation is a very much superior aircraft for long distance operation. I do not regard it as being superior in other functions, but for a long distance operation the longer range Super Constellation is very much better.

Mr. HAMILTON *(York West)*: Do you have any surplus of North Stars that are not being used or are not in service which have not been disposed of?

Mr. MCGREGOR: No.

Mr. HAMILTON *(York West)*: None?

Mr. MCGREGOR: None.

Mr. KNIGHT: What will be your percentage in this period which is covered by this airlift, which I suppose is the whole summer period, of seats available which are not in use? I do not know the technical terms—seat availability or what ever it is.

Mr. MCGREGOR: Yes, our over-all load factor varies between directions and by months because there is a very substantial movement in the early part of the summer to Europe and the reverse applies of course towards the end of the summer. However, if we could take July as a fairly indicative month, then T.C.A. load factor last year, westbound was 87.3 per cent indicating 12.7 per cent of the seats unused. In the reverse direction, that is east, the load factor was 78 per cent or 22 per cent of the seats unused.

Mr. KNIGHT: And consequently it is going to be a profitable operation knowing that the seats are going to be filled, even at a lower rate.

Mr. MCGREGOR: Yes, I think that is correct.

AFTERNOON SESSION

MARCH 21, 1957,
3.15 p.m.

The CHAIRMAN: Gentlemen, I see a quorum. I am informed that there are some questions which may now be answered by Mr. McGregor and which he was not able to answer this morning. I am now going to ask him to give the answers to those questions.

Mr. McGREGOR: Thank you, Mr. Chairman. One question was asked by Mr. Hahn in connection with the comparison of the fares, For example, he mentionned the New York to Seattle fare charged by an American trunk carrier as compared with T.C.A.'s price for Ottawa to Vancouver. He picked two routes that were very similar as to mileage and the comparison as to the cost of the U.S. carrier, first-class, return service is $301.90, and in the case of Ottawa to Vancouver it is $312.45.

The second question that was asked by Mr. Hamilton of York West was for a breakdown of our estimates of the passenger traffic which we considered might be lost in the event of an Edmonton stop by the Canadian Pacific Air Lines on their service to Amsterdam. We did not take into consideration the traffic that might be carried by T.C.A. beyond the United Kingdom, but we considered the possible loss of traffic as between the Edmonton area and the U.K. as follows: Edmonton to U.K., 747 passengers; Calgary to U.K., 624 passengers, Lethbridge to U.K., 60 passengers or a total of 1,431 passengers per year. Extending the revenue figures on that traffic it represented a sum of $515,000 and, on the basis of 40 per cent traffic accruing to the Canadian Pacific Air Lines, it would give them $205,000 and the estimated revenue lost from traffic from such points as Victoria, Seattle and Vancouver might give them $83,000. This produces the figure that I mentioned this morning of $288,000.

Mr. HAMILTON (*York West*): Well now, Mr. McGregor, in connection with that answer you will recall that in replying to me about Canadian Pacific Air Lines' route to Lisbon you felt that on a competitive basis that was not going to affect you too much. That is to say, the loss, because of the European dispersal point. Does not the C.P.A. have a European dispersal point on their Vancouver run or is it a different type of dispersal point?

Mr. McGREGOR: I think so. Backhaul is not too attractive to passengers, in our opinion. The majority of Canadian Pacific traffic is moving to and from United Kingdom. To go to the U.K. via C.P.A., passengers have to fly back to the U.K. from Amsterdam. The same is true to a lesser degree in the case of Lisbon, we think, inasmuch as they have to fly north and a little bit west, to get to the U.K. or Paris from Lisbon the proposed C.P.A. service will carry traffic primarily to Southern Europe.

Furthermore, as I mentioned this morning, it was the understanding we had from the proposals made by Canadian Pacific Air Lines that they felt that a large proportion of the volume of their capacity would be used to accommodate through Mexican traffic which wanted to move to southern Europe.

Mr. HAMILTON (*York West*): Well would there be 40 per cent of your Toronto-Montreal traffic in your calculation going to Lisbon in the same way that that 40 per cent calculation here is going to Amsterdam? Did you work out those figures?

Mr. McGREGOR: I do not think so. We are talking about the business of getting Canadians to the U.K. and the distance penalty from Lisbon would be greater than the penalty from Amsterdam.

Mr. HAMILTON (*York West*): How much greater would that penalty be? Are you talking about dollars or convenience now?

Mr. McGREGOR: I am talking about both really. The distance is greater; therefore because of that fact the cost is greater. Also amount of air traffic, and therefore the frequency of flights between Amsterdam and the U.K., is consiredably greater than between Lisbon and the U.K.

Mr. HAMILTON (*York West*): In all respects then, your surveys as far as you are concerned would indicate a greater eating into the T.C.A. volume through an intermediate stop on that run than an intermediate stop, Toronto-Montreal-Lisbon.

Mr. McGREGOR: As I think I mentioned this morning a greater eating into the revenue due to very much longer haul, that we would be losing in the case of a passenger starting his travels from Edmonton.

Mr. HAMILTON (*York West*): You would still get the domestic traffic from these passengers, from whatever the pick-up points would be here. Did you set that off at all at Calgary and Lethbridge and so on?

Mr. McGREGOR: No, it would be short.

Mr. HAMILTON (*York West*): Well let me take you one step further. Is there another large volume of traffic which would be affected if we had an intermediate stop between points of the trans-ocean lines at Winnipeg. Does that draw another large reservoir?

Mr. McGREGOR: Yes, it would.

Mr. HAMILTON (*York West*): Have you any idea of the size of that?

Mr. McGREGOR: No, I do not think we have a calculation with us on that.

Mr. HAMILTON (*York West*): You have not made a calculation of the effect one of the international airlines stopping there would have?

Mr. McGREGOR: No, but the further east one moves, the greater effect on the domestic haul of course.

Mr. HAMILTON (*York West*): Yes.

Mr. FULTON: Did you say "domestic"?

Mr. McGREGOR: East, in connection with these stops—for instance, a stop at Winnipeg by a trans-Atlantic carrier would draw Winnipeg and everything west on a competitive footing.

Mr. HAMILTON (*York West*): That, of course, would not necessarily be true if both places were licensed this way. That would mean that you would be dividing up the area.

Mr. McGREGOR: Yes, that is right.

Mr. HAMILTON (*York West*): One thing you might like to explain is the fare from Vancouver to Amsterdam. Is it equivalent to the fare from Vancouver to Montreal to Amsterdam?

Mr. McGREGOR: Yes.

Mr. HAMILTON (*York West*): There is no difference in those figures?

Mr. McGREGOR: No.

Mr. HAMILTON (*York West*): There is a great deal of difference though in the route miles flown on that flight, is there not?

Mr. McGREGOR: Well I do not want to do an injustice to my friend, Mr. McConachie, but the difference in my opinion is very much less than has been stated.

Mr. HAMILTON (*York West*): Have you any idea what it would be?

Mr. McGregor: I would think it varies. Many C.P.A. westbound flights are routed through as southerly a point as Goose Bay, and when that occurs the C.P.A. mileage is very close to our own mileage. In other cases of a full non-stop great circle route, it is probably as much less as 800 miles. However, I think 1,000 miles is used in publicity.

Mr. Hamilton (*York West*): Well now, is this fare the same? Is it T.C.A.'s desire that the fare should be the same or is it imposed from some international authority or something of that nature?

Mr. McGregor: The fare is approved by the IATA, International Air Transport Associations and the general principle of IATA, is that as far as possible regardless of routing, the fare between two points shall be the same.

Mr. Hamilton (*York West*): Do you know whether there has been at any time, any application made for a lower rate of that tariff, at all, between IATA—

Mr. McGregor: I cannot say.

Mr. Hamilton (*York West*): You do not know that.

Mr. Fulton: So far as the convenience of the passengers is concerned, what is the difference in the time it would take to get, say, from Vancouver to Winnipeg, by your best connection and the best connection of the C.P.A. lines to Amsterdam and back to the United Kingdom?

Mr. McGregor: I think our time is on the average one and one-half or two hours better.

Mr. Hamilton (*York West*): Are we still on this heading?

The Chairman: I think we are on "Service and Traffic Growth".

Mr. Hamilton (*York West*): Oh, yes, service and traffic growth. Do you have any figures breaking down the total amount of traffic between Toronto and Montreal, Toronto and Ottawa, and Toronto and Winnipeg—the number of passengers flown. Do you have that with you?

Mr. McGregor: Yes.

Mr. Hamilton (*York West*): Could we have that, please?

Mr. McGregor: Yes—Toronto and Montreal?

Mr. Hamilton (*York West*): Toronto and Ottawa, and Toronto and Winnipeg.

Mr. McGregor: For what month would you like that?

Mr. Hamilton (*York West*): Well, I was thinking more on a yearly basis, if you had it.

Mr. McGregor: We will have that in a moment, Mr. Hamilton.

Mr. Hamilton (*York West*): I would like those figures as to total traffic.

Mr. McGregor: Both ways?

Mr. Hamilton (*York West*): Between the points, yes, and not on the basis of flight or at least, passengers originating in the points and only going to other points. I would like a complete carry-through, no matter where they originated, but as it stands between these points.

Mr. McGregor: That is across the route.

Mr. Hamilton (*York West*): That is right.

Mr. McGregor: I will let you have that in a moment.

Mr. Hamilton (*York West*): And then I would like you to give us, if you can, the figures on Toronto and New York, and Montreal-New York.

Mr. McGregor: That is T.C.A. traffic only?

Mr. HAMILTON (*York West*): Yes, T.C.A. traffic only, and again with the same observation that I do not want it restricted to traffic originating at the two points but all traffic as between them. And while we are on this point, I wonder as well, Mr. McGregor, if you can recall what conversation you had, as to when they were held with C.P.A., on the interchange of routes: Whether it was before the actual advertisement by the Air Transport Board or after? I do not know whether you had time to look that up at noon or not.

Mr. MCGREGOR: You are referring to the Lisbon application, Mr. Hamilton?

Mr. HAMILTON (*York West*): Yes.

Mr. MCGREGOR: I did think about that during the lunch hour and the only way I will be able to get that information for you is from my desk memorandum.

Mr. HAMILTON (*York West*): Right.

Mr. MCGREGOR: But it occurred to me in thinking about it that I believe the first time I heard about the Lisbon proposal was in a conversation with Mr. McConachie and I think it occurred on the same trip east on which he had met with the board and made his formal application to the Air Transport Board.

Mr. STEWART (*Winnipeg North*): Mr. Chairman, could I ask Mr. McGregor a question? There is a Scandavian air service flying from the United States over the Pole to Europe which is not allowed to pick up passengers at Winnipeg, although it does touch down there. Now, if they were allowed to pick up passengers have you any idea as to what loss in revenue there would be to the T.C.A.?

Mr. MCGREGOR: We have not calculated that, because it is very difficult to determine. I think the first point of the touch-down of that service in Scandinavia is Copenhagen. The difficulty is to calculate how much traffic destined actually for the United Kingdom would fly back from Copenhagen and also from Stockholm and so on. It could be very serious for T.C.A.

Mr. HAHN: Mr. McGregor, you gave me some figures for the first-class flight from New York to Seattle and Vancouver-Ottawa. Could I have the tourist figures as well.

Mr. MCGREGOR: I have not the tourist comparison. The tourist fare cnstruction in the United States is considerably different from ours, but I can get it for you, Mr. Hahn.

Mr. HAHN: You say it is different. In what way is it different?

Mr. MCGREGOR: They have a bigger differential between the tourist and the first-class services, than do we.

Mr. HAHN: Well, there would be a greater difference in the tourist rate then, and that leads me to this question. What percentage of the traffic that you would get from Vancouver, east, let us say, do you feel you might be losing to the Seattle people by reason of this factor of the differential in price?

Mr. MCGREGOR: Prior to the rates approaching one another, we felt that we lost about 15 or 20 per cent of the Vancouver-originating transcontinental traffic, via Seattle. We are not sure whether the differential in currency is going to have an effect. It possibly could, but prior to the difference in currency value approaching the 4½ per cent situation, we felt that the currency meant losing only small percentage of our traffic to the competitive lines immediately south of the border.

Mr. HAHN: Well, I had currency in mind and that raises the question which I asked yesterday in respect of the C.N.R. That, of course, was relative as well, but over and above that, if the differential is greater in our tourist fare, we must be losing even more in so far as anyone who, let us say, intends to go from Vancouver and make a call at Seattle or New York and Ottawa, which might be possible—although normal practice would be Ottawa and New York, because of a price differential in fare. Especially in the tourist group, it might be desirable from their point of view to go to Seattle by fast train, Great Northern, or some other way. Then taking the American depreciated currency, they would buy their ticket to New York and then go to Ottawa from there. They could probably make a return trip to New York and take some way like that at less cost than we could make the circle fare.

Mr. McGregor: Yes I think that is possibly true, and there is yet another routing which is directly competitive and perhaps considerably faster and less trouble than the one you mentioned. That is through Chicago, getting back to the Canadian service at Chicago, involving very much more of a route and going as far east as New York and back to Ottawa that way.

Mr. Hahn: From the point of view of management in T.C.A. would you go so far as to express the desire that possibly the discrepancy in the value of currency is working as a detriment to us and that we might be losing some traffic in that respect?

Mr. McGregor: Well, Mr. Hahn, there are many other factors involved besides the question of currency. I would not like to express an opinion on it. But purely from the standpoint of the airline, a smaller differential would tend to retain more of our traffic.

Mr. Stewart (*Winnipeg North*): Have you any plans in mind to give a service from western Canadian cities to Chicago?

Mr. McGregor: It is not a question of having plans in mind. We are not permitted to do it under the present United States-Canadian bilateral agreement. We have always been hopeful to get such a route, and we have always made a request for it when bilateral negotiations were undertaken. But so far our request has been strongly resisted by the American authorities.

Mr. Stewart (*Winnipeg North*): Do you not have a negotiating lever somewhere?

Mr. McGregor: Yes, but the levers are not too strong. Otherwise I expect we would have had more success than we have had in bilateral negotiations. The ability to go into big American traffic generating centres does not tend to be offset entirely by giving a corresponding right to an American carrier to come into a somewhat smaller Canadian centre.

Mr. Hahn: Speaking of the west coast again in the same matter of natural trade districts both from the point of view of finances and trade itself: in so far as rail traffic is concerned, traffic is in a very unhappy situation. What attempt has been made to get T.C.A. flights directly to Los Angeles and San Francisco, let us say, bypassing Seattle which the United Airlines have today?

Mr. McGregor: I do not believe a request has been made for a trans-border route Vancouver to San Francisco. We have however frequently requested permission to fly to Seattle. We are particularly interested in the Vancouver to Seattle route. For one reason not entirely commercial, it was the first run which T.C.A. ever operated, the only route it once operated and no longer does. But while that is all ancient history it does have an effect. We would like very much to avail ourselves of the traffic you speak of. There is certainly a large community of interest up and down the western coast of this continent.

Mr. Hahn: Is it your intention possibly keeping that in mind to proceed with such a request?

Mr. McGregor: We are very hopeful as an airline that full blown bilateral renegotiations can take place with the United States in the not too distant future.

The Chairman: Are there any further questions under "Service and traffic growth"? Is the heading agreed to?

Mr. Hamilton (*York West*): Is it possible to ask a question at this point concerning fares?

The Chairman: I think probably this is the place it should be asked.

Mr. Hamilton (*York West*): One of the things which worries me a little is the discrepancy on your airmail routes flown, and the differences in the rates. Take for example Toronto to Ottawa where the Viscount time is about one hour and five minutes and the fare is $18.40, and take the example of Winnipeg to Toronto where the Viscount time is three hours and fifteen minutes and the fare is $77.65. What would be the reason for the difference there? Is your price based on competition from rail transportation through these areas? Is that the reason for it?

Mr. McGregor: No. The price is not too well related to time. I think the timetable times between Toronto and Winnipeg involve a stop at the lakehead which is not always made.

Mr. Hamilton (*York West*): You have a direct flight, have you not?

Mr. McGregor: We have a direct flight but in the winter time particularly westbound flights frequently have to land in order to refuel. So I do not think it is quite correct to relate fares to time table time particularly.

The proper relationship is to miles, and we have a basic principle in setting fares. It is that the rate per mile will increase inversely as the distance. The reason for that is that all the work associated with making reservations, issuing tickets, and boarding passengers is pretty well constant whether the passenger travels 180 or 1500 miles. So when this more or less constant expense, is spread over a greater number of miles, then the rate per mile tends to decrease. I think you will find that in general the rate per mile on the longer runs is less than it is on the shorter ones.

Mr. Hamilton (*York West*): Unless you are flying at entirely different speeds it would be the reverse because you have the fare to Ottawa at $18.40 and it works out on that basis to approximately 54 and 55; yet on the Toronto to Winnipeg it is $77.65.

Mr. McGregor: If I give you the rates per mile, would that answer your question?

Mr. Hamilton (*York West*): Between the two points?

Mr. McGregor: We will do that.

Mr. Hamilton (*York West*): Yes, I think that would help to clear it up. The reason I am interested in it is that we are particularly anxious to draw the country together, east and west, as closely as we can, and if there is a discrepancy there, and it would help transportation east, and I think we should be inclined to do it with the national airline.

Mr. McGregor: The rate per passenger mile Otta-Toronto is 7.33¢ per mile and, Winnipeg-Toronto, 7.82¢ per mile.

Mr. Hahn: I have a question on the next heading "Equipment and Facilities". Are we prepared to take it now?

Mr. HOWE (*Wellington Huron*): Mr. Chairman, I have a question about air freight and air express. You say that:

> Air freight and air express traffic continued to increase in an encouraging manner, although volume remained well below the airline's carrying capacity.

What percentage of carrying capacity is being sold?

Mr. MCGREGOR: By volume it is about 34 per cent.

Mr. HOWE (*Wellington Huron*): In other words, present facilities will be in for a considerable time before you fill them up completely.

Mr. MCGREGOR: Yes, but I would point out that that figure is slightly misleading because it involves two way capacity; whereas traffic is almost uni-directional on the main east and west routes, traffic is nearly entirely westbound except during the period when cut flowers are shipped east from the Pacific coast.

The reason for that is that there is very little manufacturing as yet in being on the west coast, of a type which calls for air transport eastbound. Happily that condition does not exist in the United States where there is a big manufacturing development on the west coast for aircraft parts and so on which gives them a substantial two way traffic.

Mr. HOWE (*Wellington Huron*): How do your freight rates compare to railway freight rates?

Mr. MCGREGOR: As to freight rates, the train is very much lower.

Mr. HOWE (*Wellington Huron*): You would not know what the percentage is?

Mr. MCGREGOR: I could give it to you.

Mr. STEWART (*Winnipeg North*): You told us this morning that T.C.A. had carried many tons of supplies without charge during the Hungarian crisis. That would be in the nature of a donation. What would be the financial cost to T.C.A. or the magnitude of the donation which you gave?

Mr. MCGREGOR: It is probably not quite as generous as it sounds because, again, the directional flow of cargo on the Atlantic is almost entirely westbound, and the directional flow of those supplies was eastbound. So you might say that the capacity was being operated in any case. We could give you the exact amount of money which would have been involved if we had charged the standard tariff rates for the cargo.

Mr. HAHN: Coming back to the question of freight, Mr. McGregor, or coming back to the traffic rate charged for tours, third class, you indicated that the formula used by the Americans was somewhat different from yours. In what way is there a difference? Is it more complicated?

Mr. MCGREGOR: It is a little bit complicated because in the case of the United States—taking first class only—there is a return trip discount of only five per cent.

Mr. HAHN: I am thinking of the tourist?

Mr. MCGREGOR: Yes, they are all related, sir. But in the case of tourist travel in the United States there is no return trip discount anywhere. We found that when we applied the same principle in endeavouring to get our rate structure as comparable as possible with that of the United States that we were running into a 10 per cent return trip discount on first class, and that it complicated the picture a little bit because we were giving away, as it were, a good deal of the first class fare in the way of a return trip discount. So we felt that we could not produce the same differential between tourist and first class as existed in the United States.

The result is that on the average, I think, our per cent of reductions from first class one way, is about 20 per cent, whereas in the United States it is about 30 per cent.

Mr. HAHN: That is all one way; but on return tours we give an additional 10 per cent?

Mr. MCGREGOR: Not on tourist. For that reason I am free to admit that our return tourist rates bear too close a relationship to first class. Nevertheless we hope to be able to correct it.

Mr. HAHN: Could you give me an estimate of the difference between the two other than on the 20 per cent basis? There is no possibility of getting nearer to the dollar basis on it, is there?

Mr. MCGREGOR: No, I do not think so.

Mr. HAHN: If one were able to do the arithmetic right here, one could almost work it out.

Mr. MCGREGOR: You could work out specific flights, yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): How is the mail carried working out at the present time with the increasing use of Viscount aircraft with the smaller capacity?

Mr. MCGREGOR: It is very satisfactory because over the main transcontinental routes we are operating an all cargo service five nights a week as you know, and in addition, the two Super Constellation flights are now able to provide ample capacity. At the same time on the routes that are entirely Viscount served, frequency flight has gone up to the point where the total capacity, even though it is not great in any one aircraft, is sufficient to meet post office requirements.

Of course we are looking forward to a situation which will exist when the Vanguard is in being and when we will have ample cargo capacity on each and every flight.

The CHAIRMAN: Shall the heading carry?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): At the present time there is no question of refusing any mail which is offered?

Mr. MCGREGOR: I could not make a statement without making an explanation. In the few weeks before Christmas usually, when there is a tremendous increase in mail volume, there are occasions when the mail offering at the time of departure of one flight cannot be carried on that flight but it is carried on the immediately succeeding flight.

Item agreed to.

Mr. HAMILTON (*York West*): You will get those figures which I asked for?

Mr. MCGREGOR: Yes, we have made a note of it.

The CHAIRMAN: Now we are on "Equipment and Facilities".

Mr. HAHN: A month or so ago I remember reading that the Vancouver civic officials were discussing with your organization the possibility of the sale of their airport to T.C.A.? Are you in a position to give us a report on it, or to tell us how far this matter has proceeded?

Mr. MCGREGOR: I do not think it was T.C.A. We do not own airports and frankly we would not want to.

Mr. HAHN: That is true, but is it desirable from the point of view of T.C.A. to have them owned by, let us say, the Department of Transport or the Department of Public Works in Canada?

Mr. MCGREGOR: I do not think it matters to any one airline very much. I think the Department of Transport is very well versed in the operation of airports and owns them right across the country, with a few exceptions. Personally I think it would be better to continue in that way. As an operator, provided the facilities are there, it is of no concern to us.

Mr. HAHN: Is the Vancouver International Airport efficiently equipped, or do you see it being re-equipped for these big super-stratocruisers which you are getting in 1958?

Mr. MCGREGOR: We are assured that will be the case.

Mr. HAHN: The runways are sufficiently strong and there is no concern in that respect at all?

Mr. MCGREGOR: There will not be any concern I am told by the time the aircraft arrive.

Mr. HAHN: There again we come to a problem which I have brought up before. The thought was expressed a couple of years ago, and last year the Department of Transport practically decided to acquire White Rock airport as a secondary site for the region. That has fallen by the wayside now. Has the T.C.A. any suggestions to make within the area itself as to places which might be used, such as Abbottsford, for a secondary or emergency field on a permanent basis looking forward to the need in 1958?

Mr. MCGREGOR: As a commercial airline we confine ourselves saying what we think is best from our own standpoint, without considering the problem too much from the other person's viewpoint. We have said we think it is most desirable with the rapid growth of commercial traffic—and again I am talking about air traffic and not people—as far as it is practicable and possible that major airports be confined to that one particular business. That is, itinerant and military aircraft should be separated as far as possible from the civil operation.

Mr. HAHN: Then you believe the Vancouver International Airport should be separated so that you would not have the R.C.A.F. and other lighter aircraft on the same field as the T.C.A. That would be desirable?

Mr. MCGREGOR: From the selfish standpoint, yes.

Mr. HAHN: Do you see any greater need for airport facilities than there are at the present time? We will suppose that Vancouver International Air port is kept and Abbottsford, let us say, is used as a complementary field; can you visualize because we have had this tremendous growth that you will be short within the next few years? I am thinking more particularly of the fact that we are so short on sites on the lower mainland.

Mr. MCGREGOR: It is a very difficult question to answer. The capacity of an airport, that is with respect to runways, ramps and so on, is largely associated with the frequency of flight, and the frequency of flight may not go up substantially with the advent of these very large aircraft because they will be carrying two or three times the number of passengers per aircraft. It would be a very rash man who would say the actual physical capacity of an airport will run out even with the forecast growth in numerical traffic.

Mr. HAHN: That leads to the question, with respect to these big planes which you anticipate having in 1958 and with the aircraft requirements in respect to distance between fields that is required today, do you visualize that the secondary airports will have to be much further from, for instance, Vancouver-International, than what we have now in order to be out of the lane of traffic for circling, and so on? Is the distance going to be increased in respect to the distance that these airports will have to be away from each other?

Mr. McGregor: What we might call the circuit area of an airport will increase with the bigger and faster aircraft but not greatly. I would like to ask Mr. Seagrim if he has any idea what might be safe space between airports.

Mr. Hahn: In the case of the proximity of an airport to a city, on some occasions there might be difficulty, such as in the United States at a place like Jersey City where they had a bad crash. How do the noises from these big stratocruisers affect an area? Are they much worse?

Mr. McGregor: Without corrective action they would be very much more noisy; the air-to-ground noise would be more objectionable. All the manufacturers of big jet aircraft are working hard, as are the engineering people, on noise suppression. From the information we have, they have not been too successful in reducing the noise without seriously affecting the thrust developed. They can reduce the noise and reduce the thrust, or leave the noise and retain the thrust. It is a problem which will have to be solved before they go into operation. It will probably be a compromise between thrust and noise.

Mr. Hahn: Could Mr. Seagrim give us the desirable distance between airports?

Mr. Seagrim: I would consider the distance between a major airport catering to an airline type of operation and a small satellite airport catering to itinerant and small aircraft should not be less than ten or twelve miles.

Mr. Hahn: What is it at the present time? I take it that the figure you quoted will be for the airport of the future which we will require for these bigger planes?

Mr. McGregor: There are not many cases where there are adjacent airports in Canada. Montreal has a manufacturer's airport quite close to Dorval. There are two airports in Toronto, Downsview and Malton, and I think the separation there might meet Mr. Seagrim's requirement.

Mr. Seagrim: Yes.

Mr. Hahn: What is the distance?

Mr. McGregor: Ten or twelve miles.

Mr. Hahn: And that will do in the future?

Mr. Seagrim: I think so.

Mr. Stewart (*Winnipeg North*): You are going to spend a lot of money, running into millions of dollars, in the next few years. How will that be financed? You seem to be financed like the pipeline company. Is this going to be financed by debentures or by an increase in share capital?

Mr. McGregor: Due to the relationship between the Canadian National Railways and Trans Canada Airlines we look to the Canadian National to provide us with the required financing which has been approved and authorized. Whether that will be done, in the case of the C.N.R., by a new issue of bonds or debentures, I do not know. All I know is we will pay an interest rate equivalent to the interest charges which will be levied against the C.N.R. for that additional capital.

Mr. Stewart (*Winnipeg North*): You have not thought about increasing your capital?

Mr. McGregor: We have thought about it, and it probably will be desirable, but at the present time the capital invested in new aircraft is comparatively short term due to the high rate of depreciation applied to new aircraft.

Mr. Hamilton (*York West*): I see you have two more Super Constellations and that you took delivery of them in 1956. In the auditor's report at the bottom of page four it indicates the depreciation on these planes will be written off by 1961; that is five years. Is that the usual length of write-off for this type of plane, or is this a shorter term write-off?

Mr. McGregor: This is a shorter term write-off and is dealt with in the auditor's report which will be considered in due course. This is the first time the company's long-term equipment plans have provided for the retirement at a specific date of aircraft of a comparatively modern type. We first took delivery of the Super Constellation aircraft in 1954. We are going to be faced with a condition in which we will be retiring the whole of the Super Constellation fleet by 1961 according to present planning. If we do not accelerate the depreciation on the more recently delivered aircraft, we will have several different book values applying to Constellation aircraft at time of retirement. We are in some doubt as to what the resale market will be. Therefore we considered it was prudent to accelerate the depreciation on the more recent deliveries so as to arrive at the condition where they would all be at the equivalent book value of the 1954 deliveries.

Mr. Hamilton (*York West*): You are anticipating a major change of physical requirements as far as aircraft are concerned distinct from what we have seen taking place over the last ten or fifteen years. In other words you have carried your current aircraft through. They are totally depreciated but you are still using them. I see, in some cases, you sold those during the year.

Mr. McGregor: Yes.

Mr. Hamilton (*York West*): There is nothing in your plans which indicates the type of plane acquired in 1956 will be used beyond 1961. Have you checked with other airlines with respect to their method of taking depreciation?

Mr. McGregor: Most other lines, if they are American, depreciate at a considerably faster rate than we do. The consideration in going to an all-turbine fleet is unique. We have not had a major change in basic power in the history of the business. Once you embark on it, it is most desirable to be as fast about it as you can. The operation simultaneously of piston and turbine engine maintenance shops is uneconomical.

Mr. Hamilton (*York West*): It puts your overhead up for maintenance?

Mr. McGregor: Yes.

Mr. Hamilton (*York West*): You sold two DC-3 aircraft during the year and I gather you received $125,000 each for them?

Mr. McGregor: $130,000. They had a $10,000 residual value.

Mr. Hamilton (*York West*): Is there any chance that the North Stars may be disposed of on the same basis?

Mr. McGregor: I think so. But we are not yet ready to dispose of them until the delivery of the DC-8's or the Vanguards.

Mr. Hamilton (*York West*): Will this be a gradual disposition?

Mr. McGregor: I think we will run up to a 1960 line with the North Stars. In the case of the DC-3's it will be a gradual disposition of them as the deliveries of the Viscounts take over.

Mr. HAMILTON (*York West*): In connection with this complete change over, and in regard to the known use of these other aircraft, you have completely surveyed the possibilities of the considerable increase in traffic, and you still feel that is the best plan?

Mr. McGREGOR: Yes.

The CHAIRMAN: Shall the heading carry?

Mr. HAMILTON (*York West*): On the North Stars, I see that you say they were modified to provide increased seating accommodation for tourist services. How many seats do you have on them?

Mr. McGREGOR: Fifty-two.

Mr. HAMILTON (*York West*): Then, in going back to page seven, I notice that there were 59 passengers on the flight that crashed. Was there any particular reason for that?

Mr. McGREGOR: I beg your pardon, I am quite incorrect. It is 62 seats on the tourist.

Mr. HAMILTON (*York West*): Sixty-two?

Mr. McGREGOR: Yes.

The CHAIRMAN: Shall the heading "Equipment and Facilities" carry? If not we will proceed to "Personnel". Are there any questions under the heading "Personnel"?

Mr. HAHN: Mr. McGregor, do we have any difficulty keeping our New York personnel?

Mr. McGREGOR: Mr. Hahn, we have difficulty in keeping personnel—

Mr. HAHN: "Period".

Mr. McGREGOR: "Period"—if they are required to work on shift, as are most airline personnel.

Mr. HAHN: What I am referring to is the fact that the American lines possibly pay more. How about the office staff as such?

Mr. McGREGOR: No. In order to retain trained personnel we have to pay on a comparable basis with the U.S. airlines operating in New York.

Mr. HAHN: How do they compare with Canadian salaries?

Mr. McGREGOR: Higher.

Mr. HAHN: They are higher. What percentage?

Mr. McGREGOR: We would have to find out. I would guess it might be in the order of 10 or 15 per cent.

The CHAIRMAN: Shall the heading carry?

Mr. KNIGHT: Mr. Chairman, it might not be amiss at this stage, and I am not saying this in relation to the very pleasant trip that we have just enjoyed —I do not know, by the way, wether there has been any expression of satisfaction here in that regard—I would like to say that, whether it is due to the personnel themselves, or as a result of the training they receive, I would like to say a word of commendation in regard to the personnel of T.C.A.—those people whom one meets on a plane, and in the various offices here and there throughout the country.

Mr. McGREGOR: Thank you very much, Mr. Knight.

Mr. HAMILTON (*York West*): What is the general turnover in personnel, ground and air?

Mr. McGREGOR: There is very little turnover in respect to air personnel, other than stewardesses, which is very high, for reasons which you may have noticed. The general turnover is in the order of ten per cent per year.

Mr. HAMILTON (*York West*): Is there any particular place where that is more noticeable than others, as in the ticketing facilities?

An Hon. MEMBER: A little louder.

Mr. HAMILTON (*York West*): This is the first time that has happened to me. Is there any particular place where there is a concentration of turnover?

Mr. MCGREGOR: No, I do not think it is fair to say that there is. The turnover tends to be higher in the larger centres. As I mentioned earlier, it tends to be greater among the personnel that are required to operate on a shift basis; that is, where 24-hour service is maintained—telephone answering offices, and ticket offices at airports.

Mr. HAMILTON (*York West*): That is the most difficult thing to maintain in the ticketing system, in other words?

Mr. MCGREGOR: That is correct.

Mr. HAMILTON (*York West*): I would suppose then, that would probably be your major job, and public relations would have to be devoted to that?

Mr. MCGREGOR: Yes, and training.

The CHAIRMAN: Shall the heading "Personnel" carry? If so, we shall proceed to "planning".

Mr. FULTON: Could you say a word here? I have some technical questions I would like to ask, but perhaps first I might ask you to give us your comments on your decision to use the Vanguard, as against the Britannia? What was the difference in the types of the aircraft in respect of your requirements that made you decide to take the Vanguard? I do not know, but is it not a fact that the Britannia would be available for service sooner than the Vanguard, if you had asked for it?

Mr. MCGREGOR: Yes, it would be available ahead of the Vanguard, but the decision to buy one aircraft in preference to another is based on many factors. In the first place, one has to be careful when referring to the Britannia simply as such, because there are several versions of the Britannia, differing in range and size.

In the second place, where one is buying aircraft virtually, as has been said, off the drawing board, great consideration must be given to the past record of the company. In the case of the Vanguard, we were dealing with a manufacturing company of the airframe, which we know very well, and very pleasantly, in the case of the Viscount. In respect to the engine, again we would be dealing with the Rolls-Royce Company, whose relationship with T.C.A. extends over something like 15 years, and again has been very satisfactory. Neither of these conditions applies so far as T.C.A. is concerned, to the Bristol Company, the originators of the Britannia. Furthermore the size of the Britannia aircraft was considerably larger than our specific requirement for what we call our middle aircraft type.

It must be remembered that we had already selected the DC-3 for very long-range operation, and the Viscount for short-range operation. Our requirement was for an aircraft which range- and size-wise fitted comfortably in between those two.

Those are three of the considerations that influenced us toward the Vanguard rather than the Britannia. To go further would involve extreme technicality.

Mr. FULTON: What about the performances—speed, and so on,—as between the two aircraft?

Mr. MCGREGOR: Speed-wise, the Vanguard has a slight advantage over the Britannia. In the case of range,—and if we are talking about the long-range Britannia,—the Britannia has the greater range.

Mr. FULTON: Are there any Vanguards in service anywhere yet?

Mr. MCGREGOR: No.

Mr. FULTON: I am not referring to yours, but when will the first ones go into service?

Mr. MCGREGOR: In 1959, we expect to get our first Vanguards in the autumn of 1960.

Mr. HAMILTON (*York West*): Was any particular attention given to the fact that it might have been possible to buy Britannias in Canada? Was that one of the considerations you might have looked at?

Mr. MCGREGOR: That consideration did not weigh heavily at the time the Vanguard decision was taken, because the decision to build a commercial version of the Britannia in Canada had not then been taken, and I think perhaps, still has not been taken.

Mr. HAMILTON (*York West*): Were there any discussions with the company that led you to believe that it might have built in Canada, if they had had an order from you?

Mr. MCGREGOR: Not prior to the decision. There was considerable discussion afterwards.

Mr. CARTER: Mr. McGregor, I see you will have Viscounts flying up to Halifax next year. Could you tell us when we might get Viscounts over to Torbay?

Mr. MCGREGOR: No, I am afraid I cannot. I rather think that will never take place. Because, as I have mentioned, the Viscount is basically a short-range aircraft, and flying comparatively short-range aircraft into Newfoundland seriously impairs the regularity of the service, because it simply means that, before the aircraft is directed towards Newfoundland, reasonable landing conditions must be assured at one airport or another. Whereas the long-range aircraft can go and find out if the weather conditions are satisfactory for landing, and complete the flight if they are.

Mr. CARTER: How do you classify your Newfoundland service? Do you classify it as medium range or a long-range operation?

Mr. MCGREGOR: From the distance basis I would classify it as medium, but as a result of the weather reasons I was mentioning, it almost turns itself into a long-range operation.

Mr. CARTER: Yes. What will be the difference in flying time from Halifax to Montreal when the Viscount goes into service?

Mr. MCGREGOR: I can give it to you. Montreal to Halifax by Viscount will be one hour and fifty-five minutes. Halifax to Montreal, that is the westbound equivalent, will be two hours and twenty minutes. By North Star the corresponding times are; two hours and thirty minutes and two hours fifty-five minutes. By DC-3, which is the majority of the present service, three hours, and three hours and thirty-five minutes.

Mr. CARTER: Is there any way of organizing that service so that Newfoundland passengers could take advantage of a faster trip between Halifax and Montreal?

Mr. MCGREGOR: They could actually fly that route, but whether the time advantage that would be gained between Halifax and Montreal would offset the business of getting from, say, Torbay to Halifax, I would not be sure. I do not know that it would pay off.

Mr. CARTER: I was thinking that there might be a flight that could come to Halifax and connect with the Viscount, a passenger could go on to Montreal on the Viscount.

Mr. McGregor: Yes, that could be done, but whether that would prove an advantage time-wise, over the straight North Star operation without too many stops between Torbay and Montreal, I do not know. I am inclined to think the latter would be the preferable arrangement.

Mr. Carter: What would be the possibility of a direct flight from Torbay to Montreal?

Mr. McGregor: It would be good.

Mr. Carter: Yes.

Mr. McGregor: Traffic is growing, and I think such a flight will be justified in the not too distant future.

Mr. Carter: Thank You.

Mr. Fulton: To deal with the question of jets, Mr. McGregor, you say here that the DC-8 will enter service in 1960 with T.C.A. What will be the difference between jet operation in respect of your trans-continental flights and that of the American trans-continental flights; from Seattle to Chicago or New York?

Mr. McGregor: In time?

Mr. Fulton: Time of commencement of jet service?

Mr. McGregor: I am inclined to think that we may be a few months behind. I think that the first Boeing 707 trans-continental jet service in the States is scheduled to begin in 1959.

Mr. Fulton: What would be your estimate of any effect that may have drawing traffic away from you? Is it far enough in advance to effect you materially, do you think?

Mr. McGregor: I do not think it will for long. The interval between the two starts of service will not exceed seven or eight months. There will be a number of curious people that would like to see what it is all about, and will go to the states to try it, and having done that once, I do not think they will be inclined to use that as a regular means of travel, certainly not after our own jet service is in operation.

Mr. Fulton: You think it would be a sort of one job operation, and it would not draw traffic away from you permanently?

Mr. McGregor: I do not think so.

Mr. Fulton: Have you made any plans yet as to the flight crews of your new jets? Will they carry a flight engineer, or do you plan to carry just a pilot and co-pilot?

Mr. McGregor: That question is actually being reviewed with the manufacturer of the aircraft at the present time. There is, as you probably know, a requirement that aircraft beyond a certain gross weight in the States, regardless of how the cockpit is designed, must carry a flight engineer. The same requirement does not apply in Canada, or the United Kingdom. Whether the DC-8 cockpit is going to be built in such a manner as to require a flight engineer, I do not know. The actual fact is, the instrumentation of the jet aircraft is very much simpler than in a considerable smaller piston engined aircraft, so the need for a flight engineer does not seem to be apparent.

Mr. Fulton: You have reached no firm position on the point as yet, have you?

Mr. McGregor: No.

Mr. Hamilton (*York West*): Do you know why it is required in the United States in respect of their present aircraft?

Mr. McGregor: Frankly I do not. To relate the requirement of a flight engineer purely to the weight of the aircraft does not seem to be very logical.

The CHAIRMAN: Shall the heading "Planning" carry?

Mr. HAMILTON *(York West)*: Under this heading, your remarks about the coming to a fairly safe-stop in connection with the disposing of equipment previously does not quite jibe with what you say in this paragraph, "as the new equipment is delivered, there will be a gradual retirement of all the piston-engined aircraft now in the fleet." Were you referring to a gradual change in the DC-3's and in the North Stars?

Mr. McGREGOR: Yes. The DC-3's are being supplanted and, to a lesser extent, so are the North Stars by the advent of the Viscount. We are getting Viscounts this spring, for instance, to the total of eleven, of which we have received six.

Mr. FULTON: You will have 38 eventually, will you? Is that your maximum present plan?

Mr. McGREGOR: No, it is not the maximum present plan, but that is the maximum plan, but that is the maximum number now on order.

Mr. HAMILTON *(York West)*: You might clear up one story that we have heard repeatedly, perhaps I should say read, and that is that Viscounts are going to go into London Airport during this year. Previously we were informed or we read that they could not go into London because of the length of the runways. Was that correct?

Mr. McGREGOR: Yes that was right and has been corrected by the expansion of the runway.

Mr. HAMILTON *(York West)*: Oh, the extension of the runway has been taken care of?

Mr. McGREGOR: Yes.

Mr. HAMILTON *(York West)*: Looking on page 16 where you have seating miles available and seating miles occupied, there seems to be a slight indication of an increase in the white part of the chart here during the last year; but have you got any indication as to whether there is any more available space in your heavily travelled routes, let us say. Is there any indication that you are easing that situation?

Mr. McGREGOR: Well as a matter of fact if we consider the over-all system load factor as a measure of that easing of space, it did not occur in 1956, due to the extremely large growth of traffic. The load factor rose in 1956 over 1955. The rapidity with which we are now getting deliveries of Viscounts will certainly correct that situation. It is not our desire to have the load factor climb.

Mr. HAMILTON *(York West)*: Well on a comparative basis with other airlines you do have a very satisfactory load factor.

Mr. McGREGOR: Yes.

Mr. HAMILTON *(York West)*: Would it be one of the highest on the continent?

Mr. McGREGOR: Of the main trunk carriers I would say yes.

Mr. HAMILTON *(York West)*: So that although this graph may not indicate so, you feel you are going to get ahead of that problem with the new deliveries?

Mr. McGREGOR: Yes.

Mr. HAMILTON *(York West)*: You do not want to get too far ahead, of course?

Mr. McGREGOR: No we cannot afford to get too far ahead; we do not want to do that.

Mr. HAMILTON *(York West)*: Right.

Mr. HAHN: Mr. McGregor, on that same chart it appears that there is more seat availability, but is it not true that proportionately there is actually less than there was the year before?

Mr. MCGREGOR: 1956 over 1955, yes, I just mentioned the load factor had risen between the two years.

Mr. HAHN: And I notice a very interesting levelling off in the T.C.A. fares. Quite unlike our increase in the consumer price index, T.C.A. fares apparently have levelled off. Do you foresee a reduction in them and a decline in that graph again? I see it is below 95 now and when we reach 1958 and you put all these other aircraft into business, do you anticipate it will remain constant, all things being equal.

Mr. MCGREGOR: Well the answer to that question is entirely dependent on what we may refer to as the other curve—that is the price of labour and the price of fuel and the cost of landings and so on. Will it remain on a reasonably gentle slope or will it climb too quickly for us?

Mr. HAHN: Well of course between 1953 and 1956 there was a great deal of increase in the consumer price index figures while there is a definite decline here, even despite the increase in the consumer price index which, of course, also indicates an increase in wages and other factors, such as gasoline and so on. I just wondered whether you would again be prepared to foresee a continuation, not of the price index incline, if it so happened, or even if it carried on at the present rate, with the coming in of this new aircraft. Do you consider it very likely that we would again have a decline? You see it is less than 94 or 95 now—do you think it might decline even farther than that?

Mr. MCGREGOR: We are extremely hopeful that the increased efficiency of these aircraft will make that possible and certainly we are striving for it.

Mr. HAHN: You are looking forward to that, and if so you could almost forecast a decrease in the fare rate probably, more comparable perhaps to what they have in the United States, I suppose?

Mr. MCGREGOR: Well that seems to be a reasonable assumption. On the other hand, it is not more than two months ago that six of the major carriers in the United States applied for a 6 per cent rate increase and one of them even guilded the lily a little bit by adding a dollar per ticket.

Mr. HAHN: Very interesting—would that bring them much closer to the present rate?

Mr. MCGREGOR: I think in some cases it would bring them above.

Mr. HAHN: In the first-class fares, yes.

Mr. MCGREGOR: Yes.

Mr. HAHN: But not in tourist?

Mr. MCGREGOR: No, not in tourist.

Mr. FULTON: I am sorry to bring this matter before the committee again because it has been discussed earlier, but on this question of the new aircraft I was not quite clear whether you stated you had asked the manufacturer to design a cockpit for only the pilot and the co-pilot. Have you ever made that actual request?

Mr. MCGREGOR: Not in so many words, Mr. Fulton, we are in consultation with them as to the practicability of a cockpit layout which would not require a flight engineer.

Mr. FULTON: As they have designed it at the moment, is it for two or three personnel?

Mr. McGREGOR: In the case of the Boeing 707 it is designed for both. In the prototype that I saw, it had a hinged flight engineer panel which could be swung around and observed and reached by one or both pilots, or could be swung parallel to the side of the aircraft and manned by a flight engineer.

I would like to ask Mr. Seagrim what he understands is the latest information on this matter?

Mr. SEAGRIM: Well, what Mr. McGregor has said is correct. We are in consultation with the Douglas Company now as to what measure of simplification can be designed into the cockpit of the DC-8 to allow us to determine whether or not we will be able to fly an aircraft with simply two pilots as against two pilots plus a flight engineer.

Mr. FULTON: And would the design you have in mind be one capable of adaptation to either two or three, or what would be the position?

Mr. SEAGRIM: It would be capable of adaptation for two or three.

Mr. McGREGOR: I should point out, Mr. Fulton—and I think this is probably the point that you had in mind in your first question—that it must be designed for the flight engineer's position with respect to the American use of the aircraft.

Mr. FULTON: On yes.

Mr. McGREGOR: Because of the limitation of weight that I spoke of.

Mr. FULTON: What I was talking about was the question of adaptation because I understand there is some expert opinion to the effect that an aircraft of this size with this passenger-carrying capacity would not be safe to operate with less than three. Is that correct according to the flight engineers? Was it the Flight Engineers' Association?

Mr. McGREGOR: Oddly enough.

Mr. FULTON: What I am trying to get at is whether you are leaving that position there, and if the opinion should eventually prevail that there should be three, then would your planned aircraft be capable of carrying three?

Mr. McGREGOR: Yes.

Mr. FULTON: That is correct, is it?

Mr. McGREGOR: Yes.

Mr. FULTON: And who would definitely decide that—who will be the eventual arbiter of that decision—the Air Transport Board?

Mr. McGREGOR: Not unless they change their present regulations. I do not want to sound facetious but these aircraft cost \$5½ million apiece and we are certainly anxious to operate them safely. We are not at all anxious to operate them without a flight engineer, if any question of safety or satisfactory performance is involved. If the present Department of Transport regulations are not altered, it would be a matter of consultation between the manufacturer and the operator.

Mr. HAMILTON (*York West*): Well the question of safety itself, if that were the determining factor—

Mr. McGREGOR: There would be no question.

Mr. HAMILTON (*York West*): Well I say if that were, would not that be under the jurisdiction of the Department of Transport?

Mr. McGREGOR: Well quite probably it would, but it would be certainly nothing that the airline would think twice about. If the question of safety arose the safer construction would be adopted, definitely.

Mr. HAMILTON (*York West*): I suppose this is something that will probably come up in discussions with the Pilots' Association as well, will it?

Mr. McGREGOR: It could be.

The CHAIRMAN: Does the heading "Planning" carry?

Agreed to.

Pages 18 and 19.

Mr. HAMILTON (*York West*): Mr. Chairman, I have one question with respect to these pages since I have asked a similar question of Mr. Gordon of the C.N.R. Is there any particular advantage to the airline in continuing to obtain its financing through Canadian National sources?

Mr. McGREGOR: I believe there is, for the reason that the financing requirement of the airline is a small proportion of the total financing requirement of the C.N.R. and I presume that there is an advantage, a monetary one, in associating the provision for our capital requirements as only a part of a very much larger issue of say, bonds or debentures. From the standpoint of the airline it is very much simpler to say to its banking associates "Will you please make provision for this capital requirement". If it ever became more expensive I presume the matter would have to be investigated again.

Mr. HAMILTON (*York West*): Well now these are presumptions. Have you ever at any time had any discussions with any banking house or financial institution as to whether there actually is in fact or would be in fact, any difference in the rate that you would have to pay to borrow sums of this kind? I notice that we have a figure of $40 million in here now. Has it ever been discussed at any time with banking institutions—such a matter?

Mr. McGREGOR: We had informal discussions some years ago when the practice in the United States of having an equipment trust issue came into being and we were inquiring if there was such a source of capital in Canada. At that time we were somewhat surprised to be told that there was no interest in that form of financing aircraft, due to the mobility of the equity.

Mr. HAMILTON (*York West*): You mean you could not register a chattel mortgage in every province?

Mr. McGREGOR: Worse than that even—in every part of the world.

Mr. HAMILTON (*York West*): I see. You have not had any recent discussions about that at all, have you Mr. McGregor?

Mr. McGREGOR: No.

The CHAIRMAN: Is the balance sheet carried.

Agreed to.

Statement of income, page 20.

Mr. HAMILTON (*York West*): In connection with this page, Mr. Chairman, what is the net return of the company compared with or as related to its gross with the other major airlines—or have you any figures on that?

Mr. McGREGOR: Yes we have comparative figures. How accurately they picture the situation I sometimes doubt for the very reason that I mentioned a moment ago that the capitalization in the form of debt capital and stock of American airlines tends to be strongly depressed by this method of financing through equipment trust. However we can give you the comparison almost in any form you would like to have it.

Mr. HAMILTON (*York West*): Well I think that being the case,—in other words you are saying this that there might be a difference in percentage return, as related to capital investment because of an accelerated write-off that they might use; but I am asking more about the standpoint of the net return as related to gross revenues, if you have them. Do you have figures of that kind compared with the other leading airlines?

Mr. McGregor: We have operating expenses to revenue and I suppose it would not take us very long to give you the relationship between net and gross revenue. I would think in the main it is smaller in the case of T.C.A. than in the case of the very much larger American operators.

Mr. Hamilton (*York West*): When you say smaller in the case of T.C.A. than in the case of the larger American operator—I am looking at one here of a nine months' statement back in 1954 of Capital Air Lines, which I think if it were changed to twelve months would show a profit of approximately the same amount that we are showing this year, $1,500,000 of gross revenue. $47 million to $48 million is approximately one half of our gross revenue. Is that a fair way of comparing the operation, or can you tell us in what way those figures would be unfair?

Mr. McGregor: I think taking a nine month period is not too good a measure.

Mr. Hamilton (*York West*): I only took nine months.

Mr. McGregor: For the year ending September 30, 1956, Capital Airlines lost $2 million.

Mr. Hamilton (*York West*): I suggest that is so because you have now gone into Viscounts.

Mr. McGregor: The point is that in making any comparison over a short period of time, within a year the earnings of an airline fluctuate very widely. In the case of 1954 I think it is true to say that the Capital had depreciated almost entirely its D.C. 3's and 4's, while in 1956 with a brand new fleet, depreciation and development expense caused them to lose $2 million.

Mr. Hamilton (*York West*): What are the other factors which led you to say generally that the return was smaller than that of American airlines?

Mr. McGregor: American carriers have considerably lower expenses for the ingredients of the product. For instance fuel is considerably cheaper, something like 35 per cent, and it is a major item. In the case of the big operators, such as United and American, they operate at a very much higher volume.

Mr. Hahn: There is an interesting factor here. I am rather surprised that Mr. Hamilton of Notre Dame did not ask a question on it. I notice that advertising and publicity has dropped considerably in the past year yet our passenger service has increased by some $13 million. Is it going to be the continued policy of the company to carry on less advertising and to have increased revenue?

Mr. McGregor: I am afraid we cannot look forward to that. I have the greatest admiration for the power of advertising, so much so that we deliberately kept down our advertising in the latter half of the year because the load factor was rising beyond the point where we like to see it go.

Mr. Hahn: There was a deliberate intention then and it was maliciously done?

Mr. McGregor: Not maliciously!

Mr. Hahn: I can appreciate that. It is a fine explanation.

The Chairman: Shall the heading carry?

Mr. Hamilton (*York West*): I would like to ask one other question because we are comparing the relative position of companies here and in the States.

We mentioned that fuel cost was very much higher here and that the volume of business was higher, I suppose, in the case of the large operators. However there was a difference in the personnel rates. Have you the percentage to show what the difference is?

Mr. McGregor: I expressed the opinion some time ago and I still think it is correct that it might average out to something like ten per cent.

Mr. Hamilton (*York West*): There would be a ten per cent difference in the amount of operating expenses because we have about 43 per cent of our own in the labour costs.

Mr. McGregor: That is right.

Mr. Hamilton (*York West*): Would that not balance to a certain extent the lower rate at which you get your gas and oil?

Mr. McGregor: It does tend to balance it, but it does not do so completely because there are other expenses to which the Canadian operator is exposed. For example there are customs duties on many of the components of the aircraft that we use. We tend generally to have a more difficult problem in operations with respect to weather in many cases. During the winter there are exceptional expenses incurred associated with passenger delays and so on. We have compared ourselves with two American operators, United and Northwest. We rather like the Northwest comparison because that airline is about the same size as T.C.A. and has about the same thing by way of route pattern, being partially overseas and partially domestic and with a trans-continental service.

Mr. Hamilton (*York West*): And with somewhat the same type of weather conditions?

Mr. McGregor: That is so. There was one case—I am being entirely frank on the subject—where we felt we had to take a very good look at ourselves in the matter of that comparison and that was with respect to the expenditure on clerical force. We found that we tended to maintain more precise and much more voluminous records than did our Northwest counterpart. That appeared as a direct expense. On the other hand it was very enlightening to us because we knew very much more about the performance we were getting out of small components such as magnetos and so on where there was virtually no record kept of it in the other airline. So it is largely a matter of management policy, I suppose.

Mr. Hamilton (*York West*): Much of those records I suppose were demanded through the requirements of this committee?

The Chairman: There is more truth than poetry in that!

Mr. Hamilton (*York West*): I have two more questions. What about the cost of aircraft now that we are going into the triple prop jet? Do we buy our Viscounts as cheaply as the American airlines can buy them, and what would be the comparison of costs when we come to buy our D.C.8's?

Mr. McGregor: We pay more for our Viscounts than do the American lines because the Viscounts are brought in for domestic use and as such they have to be entered into the country and a sales tax is paid on them. In the case of the D.C.8's that does not apply because they are destined primarily for international use and therefore the sales tax is not applicable.

Mr. Hamilton (*York West*): Does that apply, or are you intermingling your use of the time when you place them on trans-Canada service as well as on trans-ocean service? They will be intermingled?

Mr. McGregor: Yes.

Mr. Hamilton (*York West*): And therefore they would be free of sales tax?

Mr. McGREGOR: Not all of them. The arrangement we have concerning the Super Constellation at the present time is that tax is paid proportional to the domestic use, I expect the same thing will be carried out with respect to the D.C. 8 where we pay a proportion of the sales tax relative to its proportional use as between international and domestic.

Mr. HAMILTON (*York West*): But in fact we are paying more for the Viscount aircraft than is being paid for them in the United States.

Mr. McGREGOR: Yes.

Mr. HAMILTON (*York West*): One other question: we have heard some rumours that these aircraft might come under the Ontario tax dealing with diesel fuel, having regard to the fuel for this type of aircraft. I wonder if you have heard anything about it and whether you would be put in the category of having to look at the rebate formula where you might have to pay a two cents per gallon tax.

Mr. HAHN: Why not buy your fuel in some other province?

Mr. HAMILTON (*York West*): Have you heard anything about it?

Mr. McGREGOR: Yes indeed. We were very exercised at what we heard, and we made enquiries. We found that the situation is somewhat clouded. As the act is worded there is no possible question about it that it is deliberately intended that whatever is being used, the aircraft fuel will carry a tax.

Mr. HAMILTON (*York West*): In other words there will be a tax placed on it and the amount of rebate will still leave you short?

Mr. McGREGOR: That is not yet determined. I might say that it is under negotiation. It is a question of what interpretation is placed on the act by the regulations that will be associated with it but which are not yet published.

Mr. HAMILTON (*York West*): Have you had any discussion with the Ontario department dealing with this, or in connection with it?

Mr. McGREGOR: Yes, we have had one.

Mr. HAMILTON (*York West*): Do you plan to have any further discussion with them?

Mr. McGREGOR: If the tax is not rebateable, yes.

Mr. JOHNSTON (*Bow River*): Did they give you any indication that it would be?

Mr. McGREGOR: There was no commitment on that point. This has been quite a recent occurrence, of course.

Mr. HAMILTON (*York West*): I assume that the province feels that it provides most of the approach facilities and services to the airports. Is that the basis for their making the charge?

Mr. McGREGOR: I cannot think of anything that the Province provides to the airline.

Mr. HAMILTON (*York West*): Does it not provide the wherewithal for people to get out to the airport, and the services which are used at the airport?

Mr. McGREGOR: No. In most cases provincial highways are not involved. For example, the Ottawa airport is within the city limits.

Mr. HAMILTON (*York West*): And the same thing applies with respect to other provinces or municipalities?

Mr. McGREGOR: With respect to the roads over which vehicles move between the airport and the city, yes.

Mr. HAMILTON (*York West*): You have to get people out there.

Mr. McGREGOR: Yes, but they would be going around there is most cases anyway.

Mr. HAMILTON (*York West*): It is problematical whether they have to be out around your airports until you create a reason for them to be there.

Mr. McGREGOR: The Malton road serves the A. V. Roe corporation.

Right Hon. Mr. HOWE: If you travelled on the Malton road you would find quite a few vehicles there which had nothing to do with the airport!

Mr. HAMILTON (*York West*): You are continuing the negotiations?

Mr. McGREGOR: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): May we have an explanation respecting the reduction in "incidental services"?

Mr. McGREGOR: Part of 1955 had a revenue somewhere in the order of a quarter of a million from the overhaul of R.C.A.F. aircraft at Winnipeg, but it was completely eliminated towards the end of 1955.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): It still leaves an item of something over $\$\frac{1}{2}$ million?

Mr. McGREGOR: Yes. There is a good deal of work done for other carriers.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Would you expect it to continue rather than to decrease?

Mr. McGREGOR: Yes, I would think so.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Has it been a reasonably profitable aspect of your operations?

Mr. McGREGOR: You mean R.C.A.F. overhaul?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): No, I mean incidental services as such?

Mr. McGREGOR: It is very difficult to determine whether you make much money out of it. Actually I do not think we do.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Perhaps I might ask you this way; when you stated it as incidental services, does that mean that there is a loss involved in the expenses of undertaking that function?

Mr. McGREGOR: Yes, and it can at best be only calculated.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): In other words, this is almost completely a net profit item? If this item were extracted from the balance sheet?

Mr. McGREGOR: When we say net services I think we mean the difference between the services for which we receive money as against the arbitrary relationship between revenue and the cost of it. For example, the ramp crew that services our own aircraft is augmented by some few people that we know are necessarily additional to do such types of work, and they are included. But there are several other items in this, Mr. Hamilton; there is a courier service carried on by T.C.A. in the case of certain airports with respect to the movement of mail, and so on. If you would like to have a list of the things we would be glad to give it to you.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I was tremendously interested in the considerable drop, and in the possibility of that drop continuing. There was an item of substantial net profit stated under revenue, and it could have had a very direct effect on your net income at the end of the year.

Mr. McGREGOR: I don't think you will see another drop as substantial as that one. It represents a discontinuance of the R.C.A.F. overhaul contract.

It is a fact that when an airline starts an operation such as the Luft Hansa coming into Montreal, at first they usually ask one of the local carriers to do their work. But as their flight frequency grows and their organization is built up, they in turn do the same thing for other companies. We did the same thing initially with respect to our own runs.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Have you given any consideration perhaps to presenting your figures or stating them to this committee in a slightly different way? You have shown your operation expenses broken down by departments such as flight operations, ground operations, maintenance and so on. That is more functional than departmental. But have you given any consideration to presenting figures to show the total amount for wages, salaries, and supplies? There is another accepted way of presenting information which would be of specific interest to the committee.

Mr. McGREGOR: If the committee would like it we can supply the figures on that basis. We have them for our own use. Personally I find them rather confusing because I find a very small item for a very big job when all the salaries and wages are lumped under one sum. There is another point. This is the standard accounting classification applied to the American carriers and I always wish to take a direct comparison between our own position and theirs.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I am not advocating that this be thrown out.

Mr. McGREGOR: You are just advocating that it be augmented perhaps.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I am looking ahead to another year as to whether or not it might be possible to present for our study a presentation of the figures on the basis of—perhaps there is a technical term—on the basis of function within the company as to wages and supplies.

Mr. McGREGOR: I would rather do it as a supplementary document to the report.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): When you cut back your advertising and publishing expenses in the latter half of the year it shows a tribute to the work done. Where did the cut-back take place? Was it in the Canadian end or the American end?

Mr. McGREGOR: I could not express an opinion on that. I would think that since the Canadian expense for advertising was greater than in 1955 and the reverse was true of the domestic, that the greater cut-back took place in the U.S. How that would compare with the overseas proportion of the cost I do not know. Quite frankly our desire is to increase the business and to use advertising to the fullest extent and at the same time not to advertise products which are becoming scarce on our shelves.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): You switched your agency in the past year following the meeting of the committee?

Mr. McGREGOR: With respect to the U.S. account?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Yes?

Mr. McGREGOR: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Then from what you told us when you decided in the latter half of the year to reduce your expenditures, the greater part of the reduction took part in Canada?

Mr. McGREGOR: I cannot say that definitely.

Mr. HAHN: Mr. Hamilton made a request of Mr. McGregor respecting some charts. We have so many charts now that I would like to know what the purpose is behind this. I can understand the desire for information and I am not suggesting there is no usefulness in what Mr. Hamilton proposes, but I would like to know what purpose will be served?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): If you go to the operating accounts recently of the Canadian National Railways, using that as a comparison, you will see there we were able to compare the expenditures on wages and salaries in their entire system without any relation to a particular department.

Here, with the exception of a statement in one sentence in front of the book which refers to the company's payroll, representing 43 per cent of operating expenses, you have no idea what their actual expenditures are in respect to staff. That also applies to all these other figures. For example, we see here Freight Operations, $19½ million in 1956 and we have no idea as to what that is made up of.

Mr. McGREGOR: We can obtain that information for you.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I realize that. I do not want to take up the time of the committee at this point, but it would seem to me by a study of these figures that if they were on substantially the same basis as the railway and other companies that we would perhaps be able to turn up an interesting commentary on the operations of the company. I think Mr. McGregor will agree with me that from a management point of view this information I am requesting is quite extensively used and studied by the company.

Mr. McGREGOR: Yes, indeed.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): That is the basis for my suggesting that it be made available to the committee, but not necessarily written into the report.

Mr. STEWART (*Winnipeg North*): I could see some use for this if I were given the wage breakdown of a job, but in being given the total wages frankly I do not see a use for it. If you were to break it down there would possibly be some value in it. I assume the accounting department of the company knows what it is doing.

Mr. HAMILTON (*York West*): I would like to come back to a question which is always asked of Mr. Gordon, as to whether there are any plans here for the abandoning of any routes, the extension of any routes, or the exchange of any routes?

Mr. McGREGOR: There are no plans for the abandonment of any routes or the exchange of any routes. There are plans for the extension of routes as rapidly as bilateral agreements permit us to do so.

Mr. HAMILTON (*York West*): Would they be international routes?

Mr. McGREGOR: Yes.

Mr. HAMILTON (*York West*): Would you say where they might be?

Mr. McGREGOR: Inasmuch as the bilateral negotiations are not yet undertaken I think probably I should not. I think it would prejudice our interests.

Mr. Chairman, there was a question which Mr. Hahn asked. I will ask Mr. Harvey to read the answer.

Mr. HARVEY: Mr. Hahn asked for a comparison of air freight rates and rail freight rates. Based on 100 pounds air freight, Montreal-Toronto; $3.80; Montreal-Winnipeg, $12.30; Montreal-Vancouver, $23.90. Rail freight First class, Montreal-Toronto, $2.25; Montreal-Winnipeg, $5.48; Montreal-Vancouver, $10.83. Is this satisfactory?

Mr. HAHN: Yes, that is sufficient. I just wanted it for comparison purposes.

The CHAIRMAN: Shall the report of Trans Canada Air Lines for 1956 be adopted?

Mr. HAHN: Before we adopt that report, I do not think we carried the individual pages, 2, 3 and 4.

Mr. McGREGOR: Those pages are summarized highlights. The detailed information is dealt with in the latter pages. I began reading at page 5 for that reason.

The CHAIRMAN: Moved by Mr. Weaver, seconded by Mr. Fulton, that the report of Trans-Canada Air Lines for the year 1956 be adopted .

Now I think we will move on to the budget of Trans-Canada Air Lines. Mr. McGregor wishes to distribute copies of the budget to the members of the committee.

Mr. McGREGOR: There are two budgets, Mr. Chairman, the operating budget and the capital budget.

The operating budget is as follows:

TRANS-CANADA AIR LINES

Operating Budget

Year 1957

Operating Revenues	$106,350,000
Operating Expenses	103,365,000
	$ 2,985,000
Non-Operating Expense—Net	1,485,000
Income	$ 1,500,000

I believe it is only correct that I should add that this operating budget for the year 1957 was prepared immediately prior to the commencement of the year. Since that time there has been a general fuel price increase announced both in Canada and in the United States which we forecast will have the effect of increasing our operating cost by some $560 thousand. There has also been an increase in landing fees in Canada effective July 1st, 1957, which we believe in this year 1957 will have the effect of increasing our operating expenses by $145 thousand. Therefore if the forecast of revenues and operating expenses remains exact, then the forecast of $1,500,000 should theoretically be reduced by this additional foreseeable expense of $705 thousand.

Mr. STEWART (*Winnipeg North*): You have an increase in operating revenues of some 15 per cent and an increase in operating expense of about 25 per cent. What is going to increase your operating expense so greatly.

Mr. McGREGOR: I do not think those two percentages are quite exact.

Mr. STEWART (*Winnipeg North*): I took $91 million against $106 million, and I took $82 million as against $103 million.

Mr. McGREGOR: The two considerations which affect it most are under the general heading of uncontrollable expense such as increased wage levels, maintenance materials and such which amount to $3,100,000, and expanded volume of business which you might call elective as examples additional employees, increased depreciation because of the greater investment in planes, increased maintenance of materials, passenger supplies and landing fees $11 million, and all totalling $9,000,000 additional gas and oil to be burned in 1957 amounting to $2,200,000.

Mr. HAHN: If you are required to pay the provincial tax, as it is now set out, what effect will it have on the operating expenses?

Mr. McGREGOR: About $325,000.

Mr. HAHN: I suppose you would not have a deficit on the over-all picture?

Mr. McGREGOR: No.

The CHAIRMAN: Shall the Operating Budget carry?

Agreed.

TRANS-CANADA AIR LINES

Capital Budget

Year 1957

	1956 Revotes	New Estimates	Total
Airplanes and Components			
Airplanes	$ 604,000	$19,868,000	$20,472,000
Betterment Projects	359,000	2,092,000	2,451,000
Aircraft Spares	962,000	919,000	1,881,000
Total	$1,925,000	$22,879,000	$24,804,000
Ground Facilities and Components			
Ground Communications	$ 10,000	$ 37,000	$ 47,000
Hangar & Shop	370,000	368,000	738,000
Ramp	135,000	64,000	199,000
Motorized Vehicles	130,000	471,000	601,000
Office Equipment	126,000	346,000	472,000
Miscellaneous Equipment	75,000	404,000	479,000
Total	$ 846,000	$ 1,690,000	$ 2,536,000
Buildings and Improvements	$ —	$ 115,000	$ 115,000
Contingency Fund	$ —	$ 300,000	$ 300,000
Grand Total	$2,771,000	$24,984,000	$27,755,000

The expenditure in respect of each of the above items may exceed the amount shown by not more than 10%, without further approval, provided the total expenditure on the said items does not exceed $27,755,000.

STATEMENT SHOWING SOURCE OF FUNDS FROM WHICH CAPITAL EXPENDITURE IS TO BE FINANCED

Net Income	$ 1,500,000
Depreciation Accruals	7,000,000
Sale of Aircraft	500,000
Working Capital—excess of normal requirements	1,755,000
Loans from C.N.R.—net	17,000,000
	$27,755,000

Included in the total of $27,755,000 are items amounting to $14,007,000 which are commitments for expenditure approved in prior years.

Initial down payments shown in this budget for aircraft and engines carry with the commitments for expenditures in subsequent years as follows:

1958	$18,100,000
1959	10,254,000
1960	23,388,000
1961	25,932,000
	$77,674,000

These commitments for aircraft and engines, together with commitments associated with previously approved budgets produce total committed expenditures in future years as follows:

1958	$ 30,766,000
1959	15,654,000
1960	37,988,000
1961	25,932,000
	$110,340,000

Mr. McGregor: Attached to the same group of pages is the capital budget, in two pages. Page 1 being the capital budget presented in the usual form, and the second page deals with the future capital expenditures, that will be involved by commitments created by the implementation of the 1957 capital budget. It is divided, as usual, into revotes from the 1956 capital budget, and the new estimates. The total, which you will see is $27,755,000.

The Chairman: Shall "Capital Budget" carry?

Mr. Hahn: There are no special circumstances surrounding any one of these that you would care to comment on, Mr. McGregor?

Mr. McGregor: I do not think so, Mr. Hahn. It reflects, as might be expected, the program for equipment.

Mr. Hamilton (*York West*): In miscellaneous equipment, do you have any special plan for further automation of your ticketing arrangement, and things like that?

Mr. McGregor: We have plans, but whether there will be sufficient technical advances to call for any expenditure in 1957 or not, I am not certain.

Mr. Fulton: Are you going to take these two pages together?

The Chairman: I think the two pages together.

Mr. Fulton: May I ask a question on page 2? Those additional loans, from the Canadian National Railways of $17 million, are required this year?

Mr. McGregor: Yes.

Mr. Fulton: And you have $40 million now?

Mr. McGregor: Yes.

Mr. Fulton: Is there any way in which the C.N.R. might issue, or buy from you additional equity stock, rather than just lending you money on notes, or bonds?

Mr. McGregor: Yes. There is the equivalent of $20 million in unissued stock. On the basis of the company's dividend record on stock, I am not inclined to think that the C.N.R. would be too entranced with the idea of buying stock, rather than fixed income securities.

Mr. HAHN: What was the dividend rate last year?

Mr. MCGREGOR: Nil.

Mr. FULTON: Have you not had a net income?

Mr. MCGREGOR: Yes.

Mr. HAMILTON (*York West*): You are going to use it for a reserve?

Mr. MCGREGOR: It is obviously going to be required to reduce the amount of new capital investment in the business.

Mr. HAMILTON (*York West*): In your case, this is used as a reverse, as you have no dividend that you are under compulsion to pay. Where does the dividend go if you pay it? Does the C.N.R. hold whatever equity stock you have now?

Mr. MCGREGOR: Yes, Mr. Hamilton.

Mr. HAMILTON (*York West*): They would get it?

Mr. MCGREGOR: The dividend on stock could only go to the C.N.R.

Mr. HAMILTON (*York West*): Using this method of financing, with the C.N.R. as an intermediary, it then does permit you to make use of, or build up a reserve, to a certain extent, whereas the railway has to pay anything that they have, directly to the government, is that not right?

Mr. MCGREGOR: I believe that is the case, as things stand now, between the railway and the government.

Mr. HAMILTON (*York West*): If you were operating a separate company, under the same circumstances, that amount of money would automatically have to go back, each year, and you would have to re-borrow?

Mr. MCGREGOR: I think that is a fair assumption.

Mr. HAMILTON (*York West*): There is an advantage, then, as far the airline is concerned, to carry on with this type of arrangement?

Mr. MCGREGOR: Yes, but the interest free position only applies to $5 million of a total of $45 million.

Right Hon. Mr. HOWE: There is an advantage, in this kind of financing, from the effect of the depreciation account. Each month a certain depreciation comes in, and that can be paid off to the railroad. It is not a problem for them, in respect to their borrowing anyway, they borrow that much less.

Mr. HAMILTON (*York West*): The flexibility of the depreciation account.

Right Hon. Mr. HOWE: It is helpful to the T.C.A., there is no doubt about that.

The CHAIRMAN: Shall "Capital Budget" carry?

Mr. FULTON: Just a second.

Mr. HAHN: In respect of the fact that we show no dividend, Mr. McGregor, if it was a privately owned line, and operating under similar circumstances, it would sell its stock to get its equipment, and so on—capital equipment—and we would be in a position to show some dividend, would we not?

Mr. MCGREGOR: In a year such as 1956, yes, Mr. Hahn. But, as I mentioned before, we pay an average of three and one half per cent interest on the vast majority of the capital invested in the airline, which is $40 million. We are not paying a dividend, or not declaring a dividend, on this $5 million of capital stock.

Mr. HAHN: The only reason I asked that question was, because, with our profit, I could not quite see exactly why we were paying no dividend, or have none to declare. If it worked out that we were financing all this, we would definitely have some dividend.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): What aircraft do you expect to make available for disposal during the year, Mr. McGregor?

Mr. McGREGOR: I think six DC-3s, Mr. Hamilton.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): And you were getting $130,000 each for them this year, but, of course, that is a fluctuating market?

Mr. McGREGOR: Yes, but it seems to be fairly firm in that range at the moment.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): So that your estimate of money being made available from the sale of aircraft, which is $500,000, is pretty conservative?

Mr. McGREGOR: Yes—Pretty conservative.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): The working capital in connection with the normal requirements, which you expect to be provided with, is another million and three quarters in the coming year. Just quickly looking at your balance sheets, you do not seem to have any more cash than you need on hand, certainly at the end of the year, for your usual requirements. I am wondering where this additional supply might be expected to come from.

Mr. McGREGOR: We advise the C.N.R. of our cash requirements 15 months in advance and if deliveries of aircraft do not keep abreast with that forecast of cash requirement, then we do cross a year-end with unused cash in hand.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I see.

The CHAIRMAN: Any further questions on "Capital Budget"? Shall "Capital Budget" carry?

Agreed.

I know that the committee would want me to express our thanks to Mr. Gordon McGregor, and to Mr. Harvey for their kind efforts in bringing forth the budget report, and the annual report of the Trans-Canada Air Lines, to this committee. We also wish to thank them for the very pleasant trip which was enjoyed today. I did not have the opportunity of going, but I understand that it was a very pleasant trip. We wish to thank you and your officials, Mr. McGregor, for the effort that you have made.

Mr. McGREGOR: Thank you very much, Mr. Chairman, and I hope everybody enjoyed it as much as the hosts did.

The CHAIRMAN: Thank you.

We have with us today, Mr. J. A. Wilson, and Mr. J. W. Beech, auditors of the firm of George A. Touche & Company Limited of Montreal. I would like them to come forward and present the auditors' report.

The CHAIRMAN: Mr. J. A. Wilson and Mr. J. W. Beech are here, gentlemen, to discuss the auditors' report.

Can the auditors' report be taken as read and included in the printed proceedings?

Agreed.

GEORGE A. TOUCHE & CO.
CHATERED ACCOUNTANTS
MONTREAL

AUDITORS' REPORT

To The Right Honourable,
The Minister of Trade and Commerce, Ottawa.

We have examined the books and accounts of Trans-Canada Air Lines for the year ended 31st December, 1956. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying balance sheet and related statement of income are prepared on a basis consistent with that of the preceding year, and are properly drawn up so as to give a true and fair view of the state of the Corporation's affairs at 31st December, 1956, and of the results of operations for the year according to the best of our information and the explanations given to us, and as shown by the books of the Corporation.

We further report that in our opinion proper books of account have been kept by the Corporation and the transactions of the Corporation that have come under our notice have been within the powers of the Corporation.

We are also submitting a supplementary explanatory report.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

February 15th, 1957.

(Page 21 of T.C.A. Report)

20th FEBRUARY, 1957.

THE RIGHT HONOURABLE,
THE MINISTER OF TRADE AND COMMERCE,
OTTAWA, CANADA.

Sir,

We report, through you, to Parliament on our audit of the accounts of Trans-Canada Air Lines for the year ended 31st December, 1956, carried out under authority of the Trans-Canada Air Lines Act.

The following report addressed to you accompanies the balance sheet and related statement of income which are included in the annual report of the Corporation.

> We have examined the books and accounts of Trans-Canada Air Lines for the year ended 31st December, 1956. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.
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We further report that in our opinion proper books of account have been kept by the Corporation and the transactions of the Corporation that have come under our notice have been within the powers of the Corporation.

We are also submitting a supplementary explanatory report.

This is the aforementioned supplementary explanatory report.

BALANCE SHEET

Cash

The cash balance at 31st December, 1956 was $1,071,000 greater than at the previous year end. However, substantial amounts were required for payments in January, 1957, under the contracts for the purchase of new aircraft.

Accounts Receivable

Increases totalling $1,650,000 in accounts receivable are consistent with the generally increased volume of business. The introduction during the year of a deferred payment plan for overseas passenger service does not affect the volume of accounts receivable because the customers' notes are discounted with the bank. The bank retains the right to charge back to the Corporation any amounts proving to be uncollectible but based on the experience to date such charges, if any, should be relatively small.

(Page 3 of Auditors' Report on T.C.A.)

Materials and Supplies

The increase of $1,789,000 arises principally from the expansion of the aircraft fleet and the corresponding requirements of spare parts, maintenance materials and other supplies.

A physical inventory was taken during 1956 by the Corporation's personnel. In connection with our review of procedures we carried out test observations of inventory quantities. The basis of valuation used was consistent with previous years, viz., laid down cost based on latest invoice price with appropriate reductions for used and obsolete items.

Insurance Fund

Insurance with optional deduction provisions is carried with outside underwriters to protect the Corporation in cases of catastrophic losses. The Insurance Fund, which remains at the same amount as last year, is maintained to absorb the Corporation's portion of expenses arising from such losses. The protection thus afforded the Corporation is considered to be adequate for any contingent expenses resulting from the disappearance of the North Star in December 1956, and no additional allowance was made in the accounts.

At the 31st December, 1956, the investments in the fund, consisting of Government bonds and similar securities, had a market value of approximately $5,300,000 or 12 per cent below cost. An actual loss will occur only if it is found necessary to sell the securities prior to their maturity. The earnings of the fund totalling $199,000 have been included in non-operating income.

Property and Equipment

Property and equipment is carried at cost less accumulated depreciation. The major changes during the year were:

Aircraft and component parts—representing four Viscounts and two Super Constellations	$ 9,481,000
Ground facilities and components	1,123,000
Buildings	181,000
	$10,785,000
Less: Retirements	1,575,000
	$ 9,210,000

Net additions to the accumulated depreciation account during the year aggregated $5,542,000 comprising $6,972,000 depreciation provided during the year less charges of $1,430,000 for retirements and miscellaneous adjustments.

The depreciation provided during the year has been determined on a straight line basis as follows:

Super Constellation—to reduce to residual values before the end of the 1961 fiscal year— at which time, according to present plans, this type of aircraft may be replaced. In accordance with this plan additional depreciation of $1,200,000 has been recorded during the year in respect of the two aircraft put into service in 1956.

(Page 4 of Auditors' Report on T.C.A.)

Viscount — to reduce to residual values over a period of nine years from date of being put into service.

North Star and DC-3—these have been fully depreciated to residual values in prior years.

Ground facilities — estimated useful life, the period depending upon the type of asset.

We are informed that all equipment has been maintained in efficient operating condition.

The balance in progress payments represents instalments on:

18 Vicount aircraft and related equipment scheduled for delivery in 1957 and 1958	$ 3,137,000
4 Douglas DC-8 aircraft for delivery in 1960	400,000
	$ 3,537,000

Additional amounts totalling $38,800,000 remain to be paid prior to or upon completion of these contracts. As at 31st December the Corporation was protected against foreign currency fluctuations on aircraft purchase commitments to the following extent:

United States currency foreign exchange contracts	$12,800,000
Sterling foreign exchange contracts	£ 6,930,000

Income Taxes

No provision for income taxes has been made because, as permitted under the provisions of the Income Tax Act, the Corporation intends claiming capital cost allowance (depreciation) in excess of the amount charged in the statement of income sufficient to offset the taxable income.

Loans and Debentures

An additional $6,500,000 required for the purchase of capital assets was borrowed from Canadian National Railways during the year increasing the notes payable to $20,000,000.

Overhaul Reserve

The reserve was reduced by charges of $74,000 during the year representing the residue cost of major projects.

Surplus

The only change in the Surplus account is the addition of the amount of net income for the year of $1,556,000. To provide a reconciliation of the increase in Surplus account with the change in the net current position the following summary has been prepared.

Net working capital at 31st December, 1955	$ 2,965,000
Additional funds provided:	
Net income for the year	$ 1,556,000
Add: Provision for depreciation, which does not involve the outlay of funds	6,972,000
	$ 8,528,000
Loans from Canadian National Railways, net ..	6,500,000
	$ 15,028,000

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Funds applied:	
Expenditures per capital budget	$11,414,000
Less: Retirements and other credits, net	1,243,000
	$10,171,000
Overhaul expenditure charged to overhaul reserve	74,000
	$10,245,000
Net working capital at 31st December, 1956	$ 7,748,000

STATEMENT OF INCOME

A general increase in operating revenues was recorded during the year. While passenger miles increased 23 per cent, passenger revenue showed a slightly lower increase of 22 per cent because of the proportionately greater increase in tourist traffic. Revenues from mail, air express and freight show moderate increases in spite of some reductions in the return per ton mile.

Operating expenses increased by 13 per cent, exclusive of the provision for depreciation of which details have been given earlier in this report.

Included in non-operation income is $250,000 being the amount by which the proceeds from the disposal of two DC3 aircraft exceeded the residual value in the books. In prior years credits of this kind were applied against the depreciation provision rather than being treated as income.

Interest on capital invested represents payments to Canadian National Railways for interest on the long-term debenture together with interest on notes payable.

GENERAL

Where applicable, foreign currencies have been converted at the following rates:

United States currency—at the dollar par of exchange.

Sterling—at the rate of $2.80 to the pound.

The Corporation has continued its policy of reviewing and challenging operational and administrative procedures for the purpose of developing techniques designed to provide maximum efficiency. Consistent with this overall policy, improvements are continually being effected in various phases of accounting activity through the consideration and adoption, where applicable, of mechanical and electronic equipment.

We wish to record our appreciation of the excellent co-operation and assistance received from the Corporation's officers and staff.

Yours Faithfully,

GEORGE A. TOUCHE & CO.

(Page 6 of Auditors' Report on T.C.A.)

The CHAIRMAN: Are there any questions, gentlemen, on page one, dealing with the items "Cash" and "Accounts Receivable"?

Mr. HAMILTON (*York West*): On page three.

The CHAIRMAN: On page three, I am sorry.

Mr. HAMILTON (*York West*): In respect of accounts receivable, Mr. Chairman, I note here that we have had, for the first time, the introduction of the time payment plan on overseas air fares. I wonder, was there a reserve set up for bad debts, covering this type of payment? If there was not, perhaps the auditor could explain why not. Did the company gain any experience from the experience of other airlines having similar types of plans?

Mr. WILSON: Mr. Chairman, is that the question?

Mr. HAMILTON (*York West*): Yes. I think it is about three questions.

Mr. WILSON: First, was there any reserve set up? There is a small reserve carried.

Mr. HAMILTON (*York West*): Where is that in the statement?

Mr. WILSON: That is in the miscellaneous liabilities item. It is a small amount. It is a fairly nominal amount, $3,000 or $4,000.

Mr. HAMILTON (*York West*): How much was the total amount involved in this type of time contract, do you know?

Mr. WILSON: Yes. It was still a small amount. This plan was only just getting started, and there had not been much time to develop any large figures. Outstanding at the end of the year was roughly $160,000.

Mr. HAMILTON (*York West*): And in the other report, would that show up in the general statement "other current liabilities"? Would that be where the reserve was?

Mr. WILSON: Yes, that is in current liabilities.

Mr. HAMILTON (*York West*): It amounted to approximately $3,000 or $4,000?

Mr. WILSON: $3,700.

Mr. HAMILTON (*York West*): Have we gained any experience from any other company which would indicate that that was a proper reserve?

Mr. WILSON: The only experience—in regard to the company itself. Of course, there has not been enough time to have gained too much experience, but there has been taken into consideration what is known of this type of plan, and it is considered that that is a reasonable amount. It is not anticipated that there will be any substantial losses on this type of sale.

Mr. HAMILTON (*York West*): This is all discounted with the bank, is that right?

Mr. WILSON: That is right, yes.

Mr. HAMILTON (*York West*): Who does the credit check on these people?

Mr. WILSON: The credit check is done by the bank.

Mr. HAMILTON (*York West*): The company simply sells the fare to anyone, and then the bank makes the credit check, is that it?

Mr. WILSON: The arrangement with the bank is, that the bank must investigate the credit. There must be an approved application, which means, approved for credit, before the actual deal is made.

Mr. HAMILTON (*York West*): Before the ticket is issued?

Mr. WILSON: That is right.

Mr. HAMILTON (*York West*): This is fairly important, because, of course, banks usually do not lose their money on this type of arrangement. They obviously have a recourse to come back against the company. Do you know anything about the type of security that they take?

Mr. WILSON: There is the normal type of arrangement, whereby the bank may recharge a bad account to the company.

Mr. HAMILTON (*York West*): To the company?

Mr. WILSON: Yes.

Mr. HAMILTON (*York West*): But what type of security do they require, do you know? Is this a straight promissory note transaction, or what guarantee have we got that there is not going to be a lot of this back on the company's hands?

Mr. WILSON: It is a note, actually.

Mr. HAMILTON (*York West*): A promissory note?

Mr. WILSON: That is right.

Mr. HAMILTON (*York West*): No other security. You do not take a chattel mortgage on their living-room furniture?

Mr. WILSON: No. That is not the type of arrangement.

Mr. FULTON: Do they take a note from the purchaser of the ticket? Yes, I suppose the company takes that.

Mr. WILSON: It is from the purchaser of the ticket, and then it is discounted with the bank.

Mr. FULTON: They discount that at the bank?

Mr. WILSON: That is right.

Mr. FULTON: And the bank credits T.C.A.'s account, and if the note comes back, they will just debit the company's account by the amount?

Mr. WILSON: That is right.

Mr. HAMILTON (*York West*): At the end of the year, were there any bad accounts under this plan?

Mr. WILSON: In the opinion of the airline officials, no, and anything we have seen backs up that opinion.

Mr. HAMILTON (*York West*): Does that mean that all payments were up to date, or is there any means of knowing that?

Mr. WILSON: The only thing would be, the bank would give notice if an account became delinquent, or showed indication of becoming delinquent.

Mr. HAMILTON (*York West*): Were there any indication of any notices from the bank that that was the case?

Mr. WILSON: No.

Mr. HAHN: Mr. Wilson, would you consider that this is a good form of doing business?

Mr. WILSON: Mr. Hahn, I would like to add one thought to that. In regard to this particular type of business, as you know, the airline has gone into it somewhat reluctantly, but if a situation of doubtful accounts were to occur, or if there were any information indicating that that type of business was not good, it could be discontinued.

The CHAIRMAN: Is this practice being followed by other airlines in the United States?

Mr. WILSON: Yes. I believe it was started by airlines in the United States.

Mr. HAHN: And their experience, to the best of your knowledge, has proven that it is a satisfactory way of doing business?

Mr. WILSON: I actually have no information on their experience.

Mr. HAHN: What has been the consideration for doing it in this fashion? How much business would we lose, in other words, in this field if we did not have this kind of thing?

The CHAIRMAN: I do not know whether Mr. Wilson is qualified to say that. He is an auditor, not an airlines man.

Mr. STEWART (*Winnipeg North*): An auditor has to deal with facts.

The CHAIRMAN: But I do not think that an auditor is supposed to deal with policy of the airlines.

Mr. HAMILTON (*York West*): Could we ask Mr. Wilson this question: In dealing with accounts of this kind, where the only security is a promissory note, do you feel that you have sufficient reserve in your statement to cover bad debts?

Mr. WILSON: I think for the present time, yes. But I think as time goes along and it builds into a more important amount that it should be very carefully reviewed, and it should be regularly reviewed. You have to keep your finger on the pulse, and be guided thereby.

Mr. FULTON: Can you tell us if you have any records which would show the percentage of volume of income from fares represented by the time-payment ticket?

Mr. WILSON: In this year, it was very small of course; $188,000 was the total volume.

Mr. HAHN: How many passenger flights does that represent?

Mr. WILSON: I do not know. I would have to ask that to be dug out.

Mr. HAMILTON (*York West*): But there is approximately $160,000 at the end of the year still owing out of that $188,000?

Mr. WILSON: Yes, that is right, because the plan went in during the year, of course.

Mr. HAHN: You are referring here only to overseas?

Mr. WILSON: Yes, that is right.

Mr. HAMILTON (*York West*): All the carrying charges are paid by the customers, are they, the travellers?

Mr. WILSON: Well, in the arrangement there is a service charge of 2 per cent of the unpaid balance which is calculated to cover those costs.

Mr. HAMILTON (*York West*): The airline itself does not pay that. There is no cost to them or there is no service charge against them?

Mr. WILSON: You mean by the bank?

Mr. HAMILTON (*York West*): Yes.

Mr. WILSON: Well, there would be interest. The ordinary charge when you discount a note at the bank involves interest, which is a charge, of some kind.

Mr. FULTON: Yes, the discount charge by the bank. Do you know what the going rate is? Do you have that?

Mr. WILSON: Their going rate is—well, they discount it at 5 per cent of the reducing balance—That is to say, 5 per cent per annum.

Mr. FULTON: Are they charging the airlines in that case? Do I understand you correctly? Is the airline getting something around 5 per cent less for the note than—

Mr. HAHN: No, no, no.

Mr. FULTON:— they charge the passenger?

Mr. WILSON: No, that is the interest charge. You must pay interest of course. But the bank is collecting in the meantime the interest from the customer, so that the net effect should be that the airlines should not be out any money on the over-all deal.

Mr. HAMILTON (*York West*): This is an ordinary type of financing deal where, in advance, the amount is calculated and it is added to the amount of the note, and the customer has got the whole 2 per cent for the period all figured out. In other words, the fare may have been $100 but he pays $124 or whatever it is, and the airline gets the net amount for the ticket. Is not that the usual method?

Mr. WILSON: Yes, it is the usual method in discounting notes.

Mr. FULTON: Well, I do not understand that, because I always thought that when you discount a note, it is discounted at a rate which will give the person who pays you cash for the note, a profit on it.

Mr. WILSON: That is right. The profit is the interest of course. In other words, the note bears 6 per cent plus 2 per cent service charge and the airlines are able to take that note and they may sell it to the bank who get 5 per cent on the reducing balance.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Perhaps another way of getting that to satisfy everybody, is this: Are these transactions segregated in a separate account, for example, which would perhaps be debited at the time of the sale with the amount for which the customer is to be charged, and this later is credited with the actual cost of the ticket and the bank charges?

Mr. WILSON: Well, of necessity they must be kept sufficiently separate in the accounts to know what has happened; otherwise, I would not be able to give you the total amount for the year and the amount outstanding at the end of the year.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Well now, taking this question a step further, since this has been segregated, is it possible to give us the basis of your 1956 experience—the net result of those operations in so far as the company is concerned?

Mr. WILSON: I am afraid that the interest portion of it is included in the other interest account. It would have to be gone over again and analysed to bring it out, as it has not been treated as a separate income account.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): So they are not really segregated?

Mr. WILSON: Not from the income point of view. But of course the accounts themselves work in this way, that as you create a note temporarily, there is an account. And when the note is sold to the bank, then it becomes a matter of the banks bookkeeping problem.

Mr. HAHN: As I understand it, the two per cent handling charge is an original item, and then you take the six per cent interest which is paid on it if it is unpaid, and the five per cent discount is the depreciated value of the repayment. Is that right?

Mr. WILSON: No; first you take the six per cent on the total of the unpaid portion plus two per cent.

Mr. HAHN: On the unpaid portion plus two per cent.

Mr. WILSON: Yes.

Mr. HAHN: And the five per cent then is all a re-discount on the unpaid balance?

Mr. WILSON: The five per cent will be paid on the amount of the note which goes to the bank and which includes a service charge.

Mr. HAHN: On the full amount of the note?

Mr. WILSON: That is right.

Mr. HAHN: And not on an unpaid balance basis?

Mr. WILSON: That is right.

Mr. FULTON: I am not qualified to quarrel with you, but would it not be more understandable to the ordinary layman if rather than saying that notes are discountable to the bank, you said that they are purchased by the bank?

Mr. WILSON: I think I did say that the notes were sold to the bank.

Mr. FULTON: In the report it says that the notes were discounted by the bank. I thought it would be a discount as against the full value of the note.

Mr. HAMILTON (*York West*): The proper term is purchase, the same as an acceptance company would purchase them.

Mr. WILSON: That is right. Purchase would be a better way to describe it.

The CHAIRMAN: Shall "Cash and accounts receivable" carry?

Item agreed to.

Next, on page 4, we have "Materials and supplies", "Insurance Fund" and "Property and equipment".

Mr. HAMILTON (*York West*): Under "Materials and supplies" have you made a spot check of the company's property and their inventory?

Mr. WILSON: That is right.

Mr. HAMILTON (*York West*): At how many places did you have to do that?

Mr. WILSON: It was done at the spots where the biggest inventories are carried. That is to say, at Montreal and Winnipeg.

Mr. HAMILTON (*York West*): Have you examined the inventory of property of the company and did you find it satisfactory from an accounting standpoint?

Mr. WILSON: Yes, we did. We have satisfied ourselves in that respect.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Did you notice that there was any substantial variation at the end of the year between the physical and the book inventories?

Mr. WILSON: No. Of course there was the usual small difference. There is one thing I would like to make clear, it is only an adjustment of the year's bookkeeping. It really is not something which would become a special problem, unless you had reason to feel that there had been a serious shortage, or if there is a serious overage, in which case perhaps your bookkeeping is wrong. But as I have said, this year there was nothing to indicate it. It has been a perfectly normal adjustment.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): That was my reason for asking the question.

Mr. FULTON: With respect to the insurance fund, I take it that it is only to cover possible liability of persons who might make a claim against the company as a result of an accident, and that the cost or value of the aircraft which may be a total loss as a result of that accident is insured with outside insurance companies. Is that the case?

Mr. WILSON: No, I am afraid that is not quite the case. The insurance fund as described in the report covers the aircraft hull and liability insurance on aircraft in respect of hull loss or damage, passenger liability, public liability, property damage liability and so on. In other words it is the normal type of coverage and it includes the aircraft. But there is other insurance carried against the aircraft while on the ground and not in service.

Mr. FULTON: You say here:

> The insurance fund, which remains at the same amount as last year, is maintained to absorb the corporation's portion of expenses arising from such losses.

Would you mind enlarging on that? What type of loss is visualized?

Mr. WILSON: We have in mind there the type of loss which Mr. McGregor spoke about this morning. It is not intended normally to cover small, incidental losses, plane damage, or things which might be called every day happenings. This is where there is a major accident. This fund plus insurance placed with outside insurance companies is calculated to cover that.

Mr. FULTON: It is pointed out later on that the North Stars are completely depreciated. Now, a North Star was lost in December.

Mr. WILSON: That is right.

Mr. FULTON: Would there be any claim for that aircraft against the outside insurance companies under this first sentence of the paragraph under discussion?

Mr. WILSON: I cannot give you a yes or no answer to that because the type of arrangement with the insurance companies depends on the total of losses during the year. For instance, the T.C.A. liability is restricted to a certain amount. If their losses happen to be sufficient that they use up the deductible portion, these other items then would be claimable against the outside insurers. So it depends entirely on the circumstances in a particular year as to what happens.

Mr. FULTON: Taking this particular year, this accident happened in December. What was the position? Did the accounts you audited reflect any claim against outside insurers in respect to what happened to that aircraft?

Mr. WILSON: Not at that time. There had been a purely bookkeeping entry, taking the aircraft at its nominal value out of the fixed assets account. But the matter of any claim cannot be cleared up or settled until the whole matter of this accident or any other accidents during the year has been fully settled. The company then decides how to place its claim with the insurance companies if one should develop as a result of that final summing up.

Mr. STEWART (*Winnipeg North*): Would there be a contingent claim against the company as a result of that accident?

Mr. WILSON: I do not know. I think Mr. McGregor touched on it this morning. I feel perhaps in view of the unsettled position that it would be better not to say too much about it. However, I shall abide by what the chairman thinks.

The CHAIRMAN: I think probably that if there are claims still to be adjusted, it would be well not to make a disclosure at this time.

Mr. STEWART (*Winnipeg North*): If there is a contingent liability it might perhaps be noted that there is a possibility. But this contingency, looking at it as a contingency, may never come into being.

Mr. WILSON: I think I could answer that. It is more of an accounting question. That is, why is there not some reference to a possible contingent liability on the balance sheet. The reason is that the fund is there for that purpose and the loss would be paid out of that fund and it would not affect the rest of the balance sheet.

Mr. HAMILTON (*York West*): I have a question to ask along the same lines as that of Mr. Stewart. You show an insurance fund on the assets side of your balance sheet of $6 million, and you also show it in your reserves as $6 million. Now supposing you had notice of a $500,000 claim as a result of an accident. Where would you show it in this balance sheet?

Mr. WILSON: Well, assuming that everything has been settled, we can show the $500,000 claim and it could be dealt with in a number of ways. One way might be by means of a notation to this fund that there is a $500,000 liability to be adjusted; or you might consider the $500,000 as a reduction of the insurance reserve, but at the same time you would in effect be setting up a claim against the fund on behalf of the company. So you start to cross yourself with entries.

Mr. HAMILTON (*York West*): In that case the entry would be on the asset side $5½ million and show up in the reserve as $5½ million?

Mr. WILSON: That is assuming it is transferred out of the asset side of the fund, into the company's current account.

Mr. HAMILTON (*York West*): Were all the claims settled in connection with the Moose Jaw disaster of several years ago?

The CHAIRMAN: That would not be reflected in this year's accounts.

Mr. MCGREGOR: The answer is yes.

Mr. HAMILTON (*York West*): That is fine. In this insurance fund I note that Capital Air Lines in their statement, have a reserve for uninsured damage to aircraft. Would that be because they do not carry a general reserve fund such as this, and that is to cover the deductible portion of the outside insurance?

Mr. WILSON: Do I take it they carry the item on the liability side?

Mr. HAMILTON (*York West*): It is on the liability side.

Mr. WILSON: And it is called—

Mr. HAMILTON (*York West*): Reserve for uninsured damage to aircraft.

Mr. WILSON: I can only surmise the answer, but I think it is probably, as you suggest, to cover the uninsured portion of their risk.

Mr. HAMILTON (*York West*): There would not be any necessity for that type of reserve here, because we have a general reserve? Is that the difference?

Mr. WILSON: Is there a corresponding fund?

Mr. HAMILTON (*York West*): No. You have a deductible part on your outside insurance. You have a loss, for instance, of $200 thousand and have a deductible $100 thousand. Would that come out of part of the $6 million reserve here? You are paid $100 thousand by your outside insurer, and would the deductible part be taken out of the insurance reserve?

Mr. WILSON: Yes. That is the idea.

Mr. FULTON: What would be the effect on the entry "property and equipment" on the assets side of your balance sheet in the event of the destruction or total loss of an aircraft which has been fully depreciated?

Mr. WILSON: All that would happen would be that it would be taken out of the property and equipment account, at whatever the residual value is. $30 thousand was the residual value of the North Star. That would be the amount that would come out of the property and equipment account because it was fully provided for by depreciation, right down to that $30 thousand level.

Mr. FULTON: Would that have any effect on the insurance fund?

Mr. WILSON: It has, but the amount is different in the insurance fund because each aircraft is insured for a specified amount which is not the same as the book value. It is based on a different calculation. For instance a North Star is insured in there for $500 thousand.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Have there been any disasters or crises which have affected the insurance fund this year?

Mr. WILSON: There have been a few very small charges which have gone against income from the investments in the fund. But it has actually been the case that there has been a net income from the insurance fund. That has been included in the income account.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I would assume from that that most of the claims in connection with the Moose Jaw crash were dealt with in previous years and there were no payments made this year.

Mr. WILSON: Yes. We naturally confirm there are no outstanding claims that have not been taken up.

Mr. HAMILTON (*York West*): I would like to ask a question further to the question asked by Mr. Fulton with respect to the North Star. I am not inquiring as to the amount of deduction allowed on it; but if for instance there was a payment from an outside insurance company to Trans-Canada, would that be listed as recovered depreciation?

Mr. WILSON: You are thinking now of recaptured depreciation.

Mr. HAMILTON (*York West*): If a plane is retired at $30 thousand and the loss which occurs is a deductible portion, supposing there is a claim of $200 thousand paid there, would that be recovered depreciation?

Mr. WILSON: I do not think so. I think it has to be explained first—in writing out the asset you mention you take everything out of the depreciation reserve for that plane first, and that applied against the asset leaves $30 thousand net balance. Then if you get $100 thousand more than that, that would be in the category of profit on disposal; it is not quite disposal, but it is profit from the finalization of the deal in connection with the aircraft which is no longer there. It is similar to the accounts this year where it mentions the profit on the two DC-3's.

Mr. HAMILTON (*York West*): You mean on the ordinary disposal of aircraft there is no recovery of depreciation, if you sold it for the same $200 thousand? Certainly in connection with the over-all size of your depreciation account, as it were, it might be considered as taxable.

Mr. WILSON: You are talking about depreciation account and I am not sure whether you mean the depreciation expense account or depreciation reserve account. I think I have explained the reserve has already disappeared. If you are thinking in terms of why it is not treated as a reduction of depreciation charge for the year, which is an acceptable method under some systems, under the accounting system they are using in T.C.A. it would not be done in that way.

Mr. STEWART (*Winnipeg North*): Doctor McCann would want to get a hand in it anyway.

The CHAIRMAN: Income taxes, loans and debentures, overhaul reserve, and surplus; is there any discussion on those headings?

Mr. FULTON: Could I go back one item to property and equipment? The last paragraph reads:

> Additional amounts totalling $38,800,000 remain to be paid prior to or upon completion of these contracts. As at 31st December the corporation was protected against foreign currency fluctuations on aircraft purchase commitments to the following extent.

United States currency foreign exchange contracts	$12,800,000
Sterling foreign exchange contracts	£6,930,000

Does that mean they have both sterling and United States exchange to that amount placed to the credit of T.C.A. with the manufacturers in those countries?

Mr. WILSON: It means that they have exchange contracts with the bank, forward contracts on exchange.

Mr. FULTON: Would you enlarge a little, I do not understand.

Mr. WILSON: It is a case of, if you have a commitment coming up in foreign funds, and you wish to protect yourself against finding that, when you do have to pay the funds, you have to pay out more Canadian dollars than you had anticipated, you take a forward commitment in that type of funds, in order to hedge against any fluctuation in the exchange. In other words, you peg your exchange rate on the day you make your original commitment, by a hedge.

Mr. FULTON: A contract with the manufacturer?

Mr. WILSON: A contract with the bank.

The CHAIRMAN: Shall the item carry?

Mr. HAMILTON (*York West*): We are on income taxes.

The CHAIRMAN: We are on income taxes.

Mr. HAMILTON (*York West*): I gather from this remark that you are entitled under the Income Tax Act, to take a larger amount of depreciation? That is, you can have depreciation on planes, let us say, at 40 per cent the first year, and 30 per cent after that?

Mr. WILSON: That is right.

Mr. HAMILTON (*York West*): And the company is spreading it out on a straight line basis?

Mr. WILSON: The company is spreading it out, that is right, on a straight line basis. I should mention, though, that in this particular case, the substantial amount of extra depreciation required this year is already available from capital cost allowances available in prior years, but not taken.

The CHAIRMAN: Shall "Income Taxes" carry?

Agreed.

"Loans and Debentures".

Mr. HAMILTON (*York West*): Here again I have the same question we have been asking before; as to whether this company is now operating in a quantity high enough, in your experience, that it could obtain these loans directly on the open market, and whether that would be any advantage for it so to do. The other question is; whether this would be a desirable investment for the Canadian National Railways, perhaps, to take preferred stock for all its money, because obviously this amount is not going to go down, if we follow the program and the planning. This type of money is going to be required on a continuing basis, and we would be carrying a $20 million loan continually, say.

Mr. WILSON: I think in regard to the first part of your question, as to whether or not the company has arrived at a stage where it should be going to the public market for money; I doubt very much if that would be a good move. For one thing, we know that current rates are quite high, and there are a lot of inherent expenses involved, in going to the public. Where you have a situation, as we have, of a government-owned airline, which can be financed from the government, there seems to be no reason for finding some other means of financing, at the present time. It seems to be the most economic way.

The second part of your question, as to whether or not the Canadian National Railways should take preferred shares for, say the amount of—did you say for the amount of the loan?

Mr. FULTON: The current borrowings, are $40 million now, and another $17 million contemplated for this year. I believe it would involve a conversion operation, because I think the only kind of stock authorized, is common stock. But, supposing there was an amending statute, and they were authorized to issue preferred shares, and there was no difficulty there, what would you say as to the desirable thing to do?

Mr. WILSON: It has pros and cons like any other problem of that kind.

There is one obvious advantage in using the present financing, and that is, that the interest is allowable for income tax, and it does cut down your income tax at the time. Otherwise you would be paying your dividend on preferred shares out of the tax paid money, and that would increase the budgeted earnings that you require, to make good the dividend.

Also, under the present plan, the company can show that it pays for every dollar it uses, except a nominal amount of capital they have. In other words, it is in the position of paying as they go.

Mr. FULTON: I do not quite follow you there, because they have a big unrepaid debt that they pay interest on.

Mr. WILSON: They pay interest on it, that is right. That is what I mean, they are paying for that capital out of their actual operations.

Mr. HAMILTON (*York West*): $20 million of this is carried on a note now. How long do you carry this type of money on notes, in the ordinary business practice?

Mr. WILSON: I think your credit has to be pretty good to carry it for long.

Mr. HAMILTON (*York West*): In connection with this operation, this company has the benefit of being in a position where it can deduct interest charges, whereas another company might be out in the equity market, and not have the benefit of that, so far as income tax was concerned?

Mr. WILSON: That could be a comparison. Of course, I think it is very difficult to make a direct comparison, just in that manner. But, that could be a position for certain comparisons, yes.

Mr. FULTON: You do not have anything done with respect to the desirable ratio between equity capital and borrowed capital, or do I understand you to say, in effect, that since it is a government-owned airline, and a direct subsidiary of another government-owned corporation, that the normal ratio is not applicable?

Mr. WILSON: I would say it is not of as much concern. It is quite possible that, as the expansion goes on, it should be reviewed and looked at, but it is nothing right now that would bother me very seriously.

Mr. HAMILTON (*York West*): There is no bother, because you can always go to the source of the funds?

Mr. WILSON: That is right.

Mr. HAMILTON (*York West*): And get it.

The CHAIRMAN: Shall this item carry?

Agreed.

"Overhaul Reserve".

Agreed.

"Surplus".

Agreed.

"Statement of Income".

Agreed.

"General".

Agreed.

Shall the auditors' report for the Trans-Canada Air Lines, for the year ending December 31, 1956 carry?

Moved by Mr. Johnston, seconded by Mr. Hahn, that the report be agreed to.

The CHAIRMAN: I would suggest that the committee adjourn until Monday morning at 11 a.m., when we will consider the reports.